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did, anyway)

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And So It Is with Investing

At what point does thoughtful analysis change to personal peeve? What is the relevance of personal opinion (or annoyance) to investment practice?

You will consider these questions as I present two topics. First, by referring to a chief executive officer who is paid \$100 million a year, I comment on the effect of exorbitant compensation on corporate performance. Yes, "exorbitant" conveys an opinion, and you may well ask, "Is John jealous of the rich?" You also will wonder if the example is unusual, exaggerated. Compensation of \$100 million is rare, but not unknown, and the large figure provides clarity and drama to make a point. Compensation of \$500,000 to \$10 million is much more common and could be judged reasonable or unreasonable, depending on the effect **on the company**, not on the individual. For example, \$500,000 of officer compensation is devastating to a company with net income of \$400,000.

In the second story, I look at histo-tourism, a business as vibrant and important as any conducted by a large public corporation, but with weaknesses having the effect of creating "facts" and circumstances that did not exist and/or are insignificant.

You decide if these commentaries are merely letter-to-the-editor

complaints, or if they are competent, compelling appeals for change. Also, judge the relevance, and let me know your reactions at John@wpam.com.

Meanderings in the Absurd

Suppose I receive a check today for \$100 million, my annual compensation for serving as chief executive officer of a company I manage on behalf of customers, employees, and shareholders. What am I to do?

First, I rush to my accountant to figure out how to reduce taxes on \$100 million, then to pay whatever tax is owed. Next, I invest the money, either in Treasury securities, new businesses, common stock of my company or of other companies, or in building a new home. Fortunately (or unfortunately), the obligation to manage my money will grow because I expect to receive the same amount, or more, every year.

If my decision is to invest in new private businesses, I must review proposals, meet people, consider business plans, and evaluate how to eliminate personal liability. To buy stocks, I need to hire one or more money managers (like Wealth Planning & Management). The search for money managers requires reading and personal interviews. In addition, I might want to work directly with a group of stockbrokers, who call at all hours of day and night, with both new ideas and information about stocks I already own. Even buying Treasury securities requires my personal time, because I must decide how much money to place in different

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maturities. Meanwhile, if one of my decisions is to build a home, I face countless meetings with real estate agents, architects and builders, landscapers, family members, and home security experts. My new economic status causes me to reflect on the lives of my family members, usually with the advice of estate planners. Will my children and spouse responsibly handle the potential inheritance? Should my children go to private school? What about my social life? The big new house is designed for parties, big parties. Do we have parties once a year, once a month, once a week? Planning just one party could require many hours, not including interruptions from the architect who is designing the new gymnasium and tennis court on the north 40. And, by the way, to maintain status, I must invest in race horses. Otherwise, I will not have much to talk about at my parties. I need to accomplish most of these tasks on company premises, with company-paid services, such as clerical support, long-distance telephone, conference facilities, and an occasional trip in the company plane. To visit experts, such as money managers, architects, or race horse breeders, I might have to spend a night or two in the company's condo in New York, or Los Angeles, or Cancun.

Absurd? Of course. From the moment I received the \$100 million, my personal attention moved from the company I manage, from the welfare of my shareholders and employees, from the personal needs of business associates, to maintaining the lifestyle created by my new wealth.

Why did my company do this to me? It could have paid me \$500,000 or even \$5 million, without causing this diversion of my personal attention. It could have relieved me of the massive responsibility of managing my money, of dealing with the hundreds of nonprofits that want both my money and my time on their boards of directors, of candidates for public office who seek my financial support, of the obligation to attend the Kentucky Derby, properly attired and briefed on how to act in the winner's circle or in the loser's box. The company could have left me unburdened, with plenty of personal time to manage the business, to help the people around me, and to develop new products and services. To keep my attention on the company, the directors should have paid me less. Should I talk to the board compensation committee? Should I ask them to pay me less? The president of a local airline once accepted less than offered. He said that he did not need the money. Surprisingly, a Congressman I know turned back some of his salary. Did he accept \$50,000 out of \$100,000? It was a while ago. I don't remember. How could he possibly live on \$50,000?

The Guilt Factor

On the day I receive the \$100 million, I feel anxiety. Am I worth \$100 million per year? What have I done to receive this largesse? Have I invented something new and useful? Have I managed so effectively that the company is producing more with the same resources? Is my contribution to society worth almost 5,000 times the income of the average American, over 500 times

the income of the President of the United States?

What about the effect of my personal income on the financial condition of the company? What about the burden of total executive compensation, of the \$50 million paid to number two, the \$25 million paid to number three, the \$1 million paid to each of twenty five others associated with the management of my company? The total is \$200 million, each year, every year. Do shareholders care? A portion of compensation is paid in stock options, not cash. Shareholders like stock options, right? The options make money for us, the executives, only if every shareholder benefits by a rising stock price, unless I get frustrated with a declining price and ask the board of directors to create a new series of options at a lower exercise price, thereby giving me and my colleagues potential reward even though shareholders recently have been losing money. Is the option exercise price above or below the book value of the company? Do payments we make to exercise options increase or decrease the book value per share, the fundamental value owned by shareholders? Should I feel guilty about dilution? Perhaps, but guilt is a fleeting emotion.

The Worry Factor

Should I worry that my company has more than \$ 1 billion of debt? Yes, I will worry about the debt. I will try to pay off the debt by increasing earnings or by selling assets. That is the way to do it. I do not need to feel personal guilt about the debt, because we will handle the debt in other ways. That \$100 million of compensation each year for 10 years happens to equal the total amount of company debt is a coincidence, right?

Fiddle-de-dee. Tomorrow is another day.

Thoughtful Wealth Planning&Management

is published four times per year by Wealth Planning&Management, LLC, P.O. Box 40994, Indianapolis, IN 46240-0994. All rights reserved. Reproduction in whole or in part is strictly forbidden. News services may quote from this periodical with proper attribution. This issue was completed May 3, 2002. The DJIA was 10,006.63 and the S&P 500 was 1,073.43.

Publisher: John W. Guy
Editor: Lois Sherman
Design: The Art Room

The Business of Histo-Tourism

American communities attract tourists and give tourists “something to do” by claiming historic status either for themselves or for specific locations. Unfortunately, inaccuracy and exaggeration arise from this business.

“Charleston has the largest number of Colonial homes in the United States,” says our guide. “No, no,” friends with us say quietly. “Our town has more.”

“Oops,” I think to myself. “What independent authority verifies the facts and conclusions, and what is important? Should I care which town has the most Colonial homes?”

In Beaufort, South Carolina, and Savannah, Georgia, tour guides claimed that the Marquis de Lafayette spent a night at a specific home, as though his presence anointed the place with historic significance. Tour guides intimate that he might have given a speech from a specific porch or balcony. The guide does not provide biographical information, except in superficial terms: “Oh, he was a close friend of George Washington,” or, “he provided funds for the American Revolution,” or, “he was a colorful man about town with liberal views about our emerging democracy.” The guide does not tell us why the Marquis visited the community, why local residents came to see and to hear him, and what he said. Was he a professional speaker motivating crowds to action? Was he running for office or promoting a cause? What was the town like when the Marquis visited? What did it produce? What did people do for recreation? No important data is provided. We only know that the Marquis (or George Washington, Abraham Lincoln, Mark Twain, of any of hundreds of other luminaries) “slept here.”

More and more towns appear to have “historic districts,” with a concentration of “historic places.” In lovely

Jekyll Island, Georgia, the historic district includes refurbished summer mansions of perhaps a dozen nineteenth-century wealthy. These wonderful structures are monuments to tasteful accumulation, but neither buildings nor guides give us the biographical data that makes history meaningful. We do not know how these people became successful or what personality traits and ambitions led to achievement. We do not receive information that helps us to understand our lives today. We see only a glimpse of how the rich and famous lived.

Charleston, Savannah, St. Augustine, and Beaufort all have historic districts. Many have “historic” hotels or “historic” beds and breakfasts. These are wonderful places to stay, comfortable, relaxing, but are they historic? The word is marketable. It attracts. But are we living history? Are we sleeping in the same bed as the Marquis de Lafayette? If so, what do I learn by sleeping in his bed?

To accommodate large numbers of tourists, communities employ tour guides, whose primary function is to entertain. Each guide develops a style, a method of relating to his/her 10 to 40 listeners, who either are becoming tired from walking and standing or maybe more interested in the name and habits of the carriage horse. Guides are known for exaggeration, for stories about how lovers signaled each other from a lighthouse, how cats came to inhabit the Hemingway House, and for inaccuracies, such as that Johnny Mercer lived in the Mercer House in Savannah.

Horse-drawn and motorized lecture tours remain the best way to meet and to understand a new community, but travelers need to appre-

ciate weaknesses of the system. Tour guides tend to be young persons working their way through college, or semi-retired persons who find personal satisfaction both in history and in meeting new people. Therefore, tour sponsors constantly train new guides, either in classrooms or, more commonly, by having trainees accompany experienced guides. Sponsors face the usual challenge of employee turnover plus the difficulty that an inaccuracy articulated by one guide is likely to continue through other guides.

“The Johnny Carson ten-person joke” routine further illustrates the challenge of training guides. Johnny told a joke to person number one, who whispered it to person number two, and so on. When the joke was publicly retold by person ten, it was unrecognizable. A similar phenomenon is that each person who observes a traffic accident will give a different version of events, and lay blame to different vehicles. Also, with time, individuals change stories, such as the hunter whose prey becomes larger and larger with each retelling. Friends have documented this habit. They helped to operate a tour boat during the tourist season. They described how the tour commentator started each season with straightforward presentations of accepted history, but with each passing day, with each new audience, the presentations changed in subtle ways. By the end of the summer, presentations included bizarre stories having no basis in the known history of the area.

Living History Exceptions

Amidst the chaos of histo-tourism are a few jewels that elucidate life, then and now. Often, these magnificent locations are staffed by volunteers and professionals who love their subjects. An example is Monticello, a monument/museum/classroom about the

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amazingly powerful intellect of a man of achievement. The volunteer historic reenactors at Conner Prairie allow visitors to glimpse a portrayal of real life in nineteenth-century Indiana. The same is true of the reenactors on the Mayflower in Massachusetts. The acting tradition is both educational and entertaining, inseparable elements in giving others a permanent memory. The countless volunteers who recreate historic battles, or Indian life, during annual celebrations or special events, provide important experiences for their audiences. Occasionally, history comes alive as a result of an unusual contemporary event. One such event is the raising of the *Hunley*.

The raising of the *Hunley* from the Atlantic Ocean, a few miles outside Charleston Harbor, has engendered new interest in the Civil War, military history, and technology of the sea. For reasons not yet understood, this eight-man submarine sank after successfully placing an explosive charge in the Union warship *Housatonic*, the first-ever incident of a submarine successfully sinking another ship. Current and retired personnel from navies throughout the world (such as our tour guide in Charleston) as well as students of naval warfare always have been aware of the *Hunley*, but I had no knowledge about it until friends took me to the restoration project. I had not dwelt on the power of the northern blockade or on the heroism of southern combatants. I had not seen the devotion that twenty-first century South Carolinians feel toward their history. The *Hunley* restoration display, and the volunteers who lecture, produced for me

both a clear image of what happened as well as a strong impression about how “The War of Northern Aggression” remains in the hearts of modern men.

The *Hunley* disappeared after its sinking in 1864, not to be seen again until 1995, when author/adventurer Clive Cussler found her in thirty feet of water, just a few thousand feet north of the Charleston Harbor north jetty. She was raised in 1999, and now rests in a freshwater holding tank while archeologists and preservationists work hard both to learn and to save the ship for permanent display. Hundreds of volunteers work both to elucidate the history of the *Hunley* and to provide honor and dignity to the dead heroes. Every day, during all open hours of the restoration center, a volunteer color guard stands at attention near the laboratory in which the remains of the heroes are studied and preserved. Some time next year, following completion of all studies and of final identification, these men will be buried with full military honors, an event that may attract thousands.

To Find History . . .

Travelers participate in dozens of tours and visit countless locations, the majority of which present weak or exaggerated renditions of the importance of a place or person. Every once in a while, however, the active traveler finds a jewel like the *Hunley*. Tourist booklets provide slight help to find the jewels, because the booklets do not state which historic site is most important and which tour is most significant and accurate. Most booklets do

not rate available history-related experiences. To find jewels, the traveler must allocate ample time. Charleston, for example, is worth two weeks, or more. The traveler who visits a day or two will rush from one place to another and will finish each day almost too exhausted to continue. The person who visits one or two sites each day, while allowing time for relaxation and for enjoying good food and entertainment, will find the jewel, perhaps one each week. The joy of finding the one jewel is worth time inevitably spent visiting the mediocre.

And So It Is with Investing

The investor must dig in many mines, must remove a lot of soil, to find jewels. The more he digs, the more she mines, the more able are investors to appreciate what is accurate and significant. In a portfolio of twenty stocks, one or two likely account for 80 percent of the portfolio's appreciation in one year. Relying on this pattern of success, professional investors diversify, not knowing clearly in advance which of the twenty will be this year's jewel. Like the traveler who must visit ten locations to find one personally meaningful encounter, or the club member who learns that one speaker in ten affects him profoundly, the effective investor nibbles at many opportunities to find the best. However, the serious investor also is aware of danger signals, such as exorbitant executive compensation. Similarly, the traveler discounts the importance of history lectures that are dominated by isolated facts, sweeping generalities, irrelevant humor, and stories that are slightly beyond belief.

Good night, Dorothy. You done good.

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