WP&M

Thoughtful Wealth Planning & Management

Vol. 6, No. 1 August 2002

CONTENTS

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Thirteen Virtues[1]

1. **Temperance**: Invest not to elevation. Expect not to dullness.
2. **Silence**: Speak not but truth about investing and business. Do not mislead. Avoid trifling cocktail party banter that might be interpreted as advice or as inside information.
3. **Order**: Let all investment activities have their places. Let each part of your business have its time.
4. **Resolution**: Resolve to perform what you ought. Perform without fail what you resolve. If you resolve to invest, stick with it.
5. **Frugality**: Make no expense but to do good to others or yourself; waste nothing. Spend not to the absurd. Perhaps one home is enough. You can control the expenses of investing, taxes and fees. Watch these with care.
6. **Industry**: Lose no time. Be always employed in something useful. Cut off all unnecessary actions, including active trading.
7. **Sincerity**: Think innocently and justly. If you direct the activities of others, or if the fortunes of others depend on your actions, think first of them.
8. **Justice**: Wrong none by doing injuries or omitting the benefits that are your duty.
9. **Moderation**: Avoid extremes and recognize extremes in markets and in society. When returns are abnormal, invest judiciously and diversify, for all things return to a mean, to normalcy. Forbear resenting injuries, including those caused by short-term declines in value.
10. **Cleanliness**: Tolerate no uncleanness in body, clothes or habitation. Tolerate no investment advice that defies common sense or that is convoluted to incomprehension.
11. **Tranquillity**: Investment markets are beyond your control. Be not disturbed at trifles or at accidents of trend. Be confident. Optimists win, in the context of moderation.
12. **Chastity**: Rarely use venery but for health of offspring—never to dullness, weakness or the injury of your own or another's peace or reputation. An excess of any sort, including speculation, brings anxiety and pain to human life.
13. **Humility**: Imitate the lives of prophets and philosophers who are important to you. Invest according to the examples of successful investors, such as Peter Lynch and Warren Buffett.

[1]The original thirteen virtues, here modified, were part of the autobiography of an important American. WP&M will send a prize to any person who tells us the source of the thirteen virtues.

Whom Do We Serve? The New Or the Old?

The marketing of investment services consumes time, money and attention. Some of this attention is better directed to existing clients.

Investment management firms having responsibility for between $10 and $100 million must navigate between the attractive mountains of potential new business and the green prairies of current clients.[2] The challenge for the small firm is to discipline the natural desire for growth and for more income. Firms such as Wealth Planning&Management become aware of many opportunities to do business with new accounts. Some of the potential new business is from institutions, some from individuals. The conundrum we face is best understood by looking first at the business of attracting large institutional accounts.

The institutional investment business is bureaucratic and routine. When an institution wants to hire a new investment manager, it utilizes a consultant to send out RFPs (requests for proposals). Not uncommonly, the requests go to 10 firms or more, sometimes 50 or more. These requests ask many questions, such as "What is your philosophy?" "How many employees do you have and how are they compensated?" "What accounts have you gained, or lost, in the past two years, and why?" and "How would you manage the assets of our account?" On average, a proper, professional response to an RFP consumes as much as 20 hours of. An additional 5 hours is required for physical preparation of the brochure in which the response is contained. The physical appearance of the response is crucial because investment committees reject sloppy responses. The brochure must look good. It must utilize color and sophisticated binding. The clerical-printing-collating costs easily run $25 per brochure, and most potential accounts request multiple copies, as many as 25, for review by the members of an investment committee. If it is reasonable to allocate $150 per hour for professional time and $75 per hour for clerical time, the total cost of responding to one RFP can be as high as $4,000. This investment in prospecting is for a one in twenty-five chance of obtaining new business.

If the potential account has sent 25 RFPs to 25 different investment managers, the total cost of the task for all managers combined rises to an absurd amount considering that only four or five of the 25 firms will be seriously considered, and of the five, only one or two will be hired. For the firms not hired, the costs are wasted and are a serious distraction from the business of existing clients. For firms that receive 25 or 50 RFPs per year, responding is a major management issue, requiring additional personnel. Firms also budget for travel. The firms selected for interviews must fund airline, meal and hotel expenses, often for more than one professional.

Marketing to individuals is not as expensive, and the probability of developing a successful business relationship with an individual is much higher. Some firms develop elaborate brochures, tapes, CDs and video tapes to give to individuals. While these are enormously expensive, distribution is limited to individuals naturally oriented toward the firm, probably through a referral. Also, these brochures can be used for years. Still, the total cost of marketing materials directed to individual investors can reach $25,000 to $50,000, including the work of professional graphic designers, first-class printing, and a print run of one or two thousand.

The members (partners) of Wealth Planning&Management are trying to determine how to deal with the costs and opportunities of seeking additional business, especially institutional business, without detracting from the personal attention we give to existing clients. We seek your opinion as to our proposed internal policy and style of approaching large new accounts. The best way to communicate your opinion is by sending an e-mail to John@wpam.com or to Nancy @wpam.com. Here is one possible marketing method, for your consideration and comments.

When WP&M receives an RFP from an institution, we propose to respond initially with a letter, not a brochure. The letter, being standardized, would not be expensive or time consuming. It would state that WP&M prepares detailed discrete responses to RFPs only in circumstances in which we are among the final four firms to be considered. Readers of the letter, presumably members of an investment committee and their consultants, would

continued on page 4

[2] Large firms employ professionals specifically to market to new clients. The costs of marketing by large firms is financed through the fees of many clients and are not a particularly heavy burden on any one client or group of clients. Also, marketing personnel do not manage client relationships or portfolios.

Thoughtful Wealth Planning&Management

is published four times per year by Wealth Planning&Management, LLC, P.O. Box 40994, Indianapolis, IN 46240-0994. This issue was completed August 7, 2002. The DJIA was 8,669.50 and the S&P 500 was 902.24.

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

Coincidence, Confidence

Investment choices result from coincidence, as follows:

Our opportunities arise from where we live. If we live in the United States, we seek opportunities in domestic companies, often companies within our home town. If we live in Europe, we believe in another set of opportunities on other exchanges in other cities, such as Frankfurt, Paris, or London. If we live in Japan, we look to the Tokyo exchange, or that of Singapore, or Hong Kong. This is the coincidence of where we live.

We make choices only when we must. If we have no money, we do not seek investments. If we are "fully invested," we do not seek new ideas. On the other hand, we seek opportunities when funds are available. For example, we seek investment advice following receipt of an inheritance. If the inheritance is received at a high point in the market, we invest at high prices. If received at a low point, we invest at low prices. This is coincidence of available capital and price.

We tend to invest heavily in the securities of our employer, through options, automatic savings, 401(k) plans, and outside purchases through brokers. This is the coincidence of employment.

Our profession leads to a defined range of personal interests from which we choose specific opportunities. Insurance professionals tend to invest in insurance contracts. Bankers tend to invest in CDs. Investment managers and stockbrokers are comfortable with common stocks. This is the coincidence of professional training and experience.

Our lives create bias. For example, alumni of Purdue University shun tax-exempt bonds of Indiana University. A person whose insurance claim is denied by Allstate will not buy Allstate common stock. This is the coincidence of personal experiences. The owner of a Palm Pilot hand-held calculator is attracted to the stock of the manufacturer, as is the patron of Outback Steak House, or the person who benefits by a new pharmaceutical from a genetic engineering company.

We become comfortable with some industries, uncomfortable with others, depending on our world view. The person who is offended by tobacco use will not purchase a tobacco firm and will avoid other investments considered socially irresponsible. An investor who believes that the cell phone is his/her most important personal tool will comfortably seek the stocks of cell phone companies. This is the coincidence of our personal comfort zones.

To find order in chaos, in the unlimited number of potential investments, professional investors consciously limit opportunities. They seek stocks that fit a philosophy, defined with diverse words such as "growth" or "value," "large cap" or "small cap," "income producing," and countless other parameters. This is the coincidence of active screening/sorting.

We trust people we know, or believe we know. These are people we encounter, by coincidence, in daily life and through referrals. Most of the time, these coincidental encounters result in positive productive personal and professional relationships. Once in a while, the referring party does not know the person to whom the referral is made. The acquaintance is limited and shallow. But life does not give us an easy way to know people. To know a person, we must deal with the person; otherwise the relationship is superficial. We learn to trust only through extended dealing. On occasion, we leave a relationship with a person we have known because of a perceived failure or insult. In these cases, we trade the person we know for a new person we do not know well. These are the coincidences of interpersonal relationships.

When we affiliate with a new advisor, we inherit his or her world view. If the new advisor is temperamentally oriented to packaged investments, such as mutual funds, our portfolios likely will reflect this orientation. If the advisor prefers individual securities, such as individual stocks and individual bonds, then we will own these types of securities.[3] This is the coincidence of philosophy.

During times of stress in the market, our reactions depend on personal circumstances. For example, an unemployed person without earned income is more likely to panic and to take precipitous action than a person who has a steady income. A person who has experienced one or more bear markets is more accepting than the person for whom a major decline is a new experience.

continued on page 4

[3] WP&M specializes in individual securities and believes that portfolios of individual securities outperform portfolios of packaged investments.

Whom Do We Serve?, *continued from page 2*

find this response to be unique, and possibly a bit pompous. On the other hand, the careful reader should find in the letter a dedication to existing clients, the kind of commitment desired by all persons when they become clients. The philosophy of dedicating time to existing clients, of responding quickly and efficiently to the needs of those who already have affiliated with us, should be inherently attractive to potential new clients. Prospects should appreciate the philosophy, which is: "We want to help you, but not at the expense of our current business. If you decide to retain us as your advisor, you, too, will benefit by our focus on existing business." Our hope is that prospects who receive this letter will include us in the final four firms to be evaluated, precisely because we save time and money on marketing. We do not divert our attention from the old to the new. We dedicate most of our time and resources to existing relationships.

Most of our present cliernts are individual investors. We want to protect our time for these persons, and we want to develop new relationships with individuals. Our business plan concentrates on individuals. To date, however, we have not invested in sophisticated printed, audio, or video prospecting literature that some firms present to prospects who are individuals. Should we? Do sophisticated materials make a difference?

(All individuals who seriously consider doing business with our firm receive a copy of the SEC disclosure document, ADV Part II. This document is thorough. All prospects should read our ADV, and the ADV of other firms they are considering. This is a long form with lots of "small print." Since the document is neither attractive nor easily read, many firms append it to more visually atttractive folders and brochures. Ideally, prospective clients would read the ADV first, then the other materials. We suspect that the opposite takes place: Readers review the attractive materials first, then the ADV, but some skip the ADV entirely.)

What do you think of this business style? If you are an existing client, what do you think? If you are a prospective client, how would you react to a letter stating that we make detailed proposals only when we are among the final four firms considered? We ask for your advice (to John @wpam.com or Nancy@wpam.com).

Coincidence, *continued from page 3*

Coincidence is powerful, inevitable, inescapable. All choices in life depend on coincidence. We must evaluate the range of opportunities that is delivered to us through coincidence. If our evaluation is prudent, and if we diversify among the choices, we will have confidence in the results. If we do not have confidence in the power of coincidence and in our ability to make thoughtful, prudent decisions about the cards dealt to us, we will fly wildly from flower to flower, receiving satisfaction from none.

Postscript

On May 15, this publication considered the effects of exorbitant executive compensation.[4]

On May 19, the *New York Times* presented the following opinion:

"It is appalling that boards of directors, presumably representing shareholders, have approved underhanded ways to enrich management" [such as forgiving loans to chief executives]. Later, it went on to say, "Risk is inherent in American capitalism, and people are willing to accept the chance of losing some of their money when they invest in a public company. But they are not prepared to be robbed."

Whether in cash, stock options, or forgiven loans, high executive compensation is a direct cost to shareholders. Shareholders should rebel.

[4]To read this article, go to www.wpam.com, newsletters, May 15, 2002.

Good night, Dorothy. You done good.