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investment club

Short takes on:
zero-sum games,
literacy, taxes,
privacy, and market
aversion

Aging gracefully

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The News from My Hometown

Here is the news from Lake Onebegone, my hometown, out there on the Beltway.

It was not that long ago that Orville Greenbacher, Martha Stewing and Richard Grass were sitting in the Sidewalk Café, two doors from the branch office of Me Myself and Eye, the only investment firm in town.

This was the winter of 1999, a mild winter, a time of unusual optimism when both the weather and the stock market made the local people feel good. They were buying boats—big boats—and investment representatives were building new houses by the lake—big houses—where vacuuming takes two days and cutting the lawn requires a John Deere tractor, a sit-down, with GPS and a TV, and cuts a thirty-inch swath. Attendance at Our Lady of Perpetual Responsibility had never been higher or more consistent. The financial condition of local nonprofits, such as The Circle Club, The Optimals, and even The Onebegone Theatre (35 seats), was excellent. They were out of debt. Some had extra cash and were planning new buildings. The theatre announced a drive to raise \$35,000, enough to acquire a new sound system, and plans to produce a fine revival of “Our Town,” with new costumes and scenery. Townsfolk wanted to serve on these nonprofit boards of directors, boards that they had left years ago

when times were tight and no one seemed willing to contribute.

Martha was especially bubbly and talkative. She owned good stocks: You Are Cloned, CyberCheck, Amazon.disorg, and LOA/WarnTime. All had appreciated in her portfolio, and You Are Cloned had quadrupled. “Richard,” she said, between bites of her Powder Milk Biscuit, “you should buy these stocks. We are in a new economy. The old ways are gone. People who do old things and think old thoughts will miss these opportunities. Who needs a dividend when stocks are rising? Get off your duff, and buy these things and, by the way, wipe that mayonnaise from your mouth. Why do you eat that way? Eat corn on the cob with butter, not with mayonnaise and parmesan cheese. Get serious. I might do my radio show about this habit. You can try to convince listeners that the corn is good, but I will tell them what you look like at the table, with white stuff and cheese all over your face.”

Richard didn’t buy it. Though president of the local investment club, called The Onebegone Exchange, the only investment club in the country that paid a salary to its president, he still did not like stocks and didn’t own any outside the club, but he felt good telling everyone else how to invest, how to manage their money, how to enhance their retirement

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plans. Mayor Judy Rudi gave Richard a special name: “the regulator,” both because he tried to guide everyone else and because he sat at the Sidewalk Café every day, same time, like clockwork.

And old Orville, trusty Orville, boring Orville, wealthy Orville, just listened, once in a while trying to say a few things: “Oils,” he said. “Buy the oils. This country runs on oil, not on clones, or clicks, or DVDs. Buy the electrics, and the telephones, and the pipe and valve manufacturers. Buy the chemicals and the steels and the rails. Buy what makes this country run. Buy the basics. How can you watch a TV without electricity? How can you produce electricity without oil? That’s the way to invest.”

Martha responded: “Listen you ol’ coot, I’ve got the information. I’ve got people’s attention. People tell me things. You are old economy. Things change. Markets change. This is a new and dynamic market, never seen before. This is a new world that runs in cyberspace, in laboratories, in planes. I gotta go. If you got some guts, call my broker at Me Myself and Eye. He knows what’s happening. Listen to him. You’ll make money. See

ya. I got money to make.”

The Sidewalk Café has not changed since then, except that now it serves more ketchup, and the special rack for duct tape is empty all the time. Powder Milk Biscuits remain popular, but with different people. Back then, in 1999, Martha Stew, never shy, never without direction, ate no more than one per meal, but today in 2003 she likes as many as four for dinner. She needs them for courage. Her four new economy stocks? Two are out of business. You Are Cloned and CyberCheck went the way of whale oil, disappearing into a massive sea of unknown trading symbols and class action lawsuits. LOA/WarnTime is chugging along, albeit at a lower price. Its library of Laurel and Hardy films and its nationwide radio show, “A City House Sitter,” produce steady income. Amazon. disorg has not made a profit, but its capacity to deliver fresh piranha overnight, with a single click on the computer, has an assured worldwide market, especially among politicians and small-country dictators.

Richard is doing well, comfortably watching reruns of Guy Noir sitcoms, although he wishes that he had not been let go from his position as investment club president. (The largest member, a California busybody, did not want to pay his salary. Threatened suit. Imagine that.)

Orville. Good ol’ Orville. He still eats corn on the cob with mayonnaise and parmesan cheese, plays canasta with Mabel. His steels and chemicals, telephones and electrics, the oils and the pipe and valve manufacturers still are boring, down perhaps 20 percent, but paying enough dividends to make do.

That’s the news from Lake Onebegone, the little town that time forgot and the decades cannot improve, where investment firm reps struggle to pay for houses and boats, where all the women play tennis, all the men are good-looking, and one investor is above average.

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Zero Sum

Some games add to nothing.

The acquisition game adds to nothing. One firm “grows”¹ by acquiring, while the seller receives cash or stock. No change. Everything is equal, sort of, because the acquiring firm might have assumed increased risk resulting from new debt or share dilution. In rare cases, synergy is possible, to a point. A merger among banks or among insurance companies potentially allows fewer people to perform common tasks, but sooner or later additional staff and facilities are needed to handle the burden of size. The law of diminishing returns applies.

Other zero sum games:

- Home burglar alarm systems with exterior signs. The burglar is directed to a nearby home.
- Termite eradication. The termites run next door.
- Stock market trading. One side is wrong.

¹The term used by chief executive officers promoting an acquisition.

Things We Do

WP&M's Principal Managing Partner Nancy Haddock talks about financial and personal literacy. She says that a financial advisor cannot predict markets or guarantee results, but when given the opportunity, she helps investors to understand the vocabulary and principles of finance. In so doing, she builds stronger foundations because an investor schooled in the basics, in concepts such as yield to maturity, rating, diversification, compound interest, present value and future value, tax consequences, random results, investing styles, and other topics, is better equipped to understand the work of advisors, to retain advisors, and, if necessary or convenient, to take personal charge of investment decisions.

Topical literacy is possible only among persons able to read and to write. This is why Nancy volunteers to teach adult literacy three times a week in and around her community, Matawan, New Jersey.

Civil and Communal Peace Are Expensive

Imagine this situation: A man is arrested for disturbing the peace and destroying private property. He first is taken to a lockup, then to a secure psychiatric care center. To achieve communal peace, "society" must help him to recover from his illness. For civility, his rights are recognized, first by a commitment hearing before a judge, then by an appeal. Depending on the outcome of his appeal, "society" either lets him go free, allows him limited freedom under a legally enforceable treatment program, or sends him to a hospital.

To handle this situation, these community resources are brought to bear: law enforcement officers and vehicles; a modern care facility with food, showers, laundry, beds, and a health care support team of about ten persons; a court room, judge, recorder, bailiff, hospital attorney and public defender; administrative equipment, such as desks, phones, files, computers; office space for support and health care personnel; if necessary, a specialized hospital with parks, gymnasiums, arts and crafts equipment, library, Internet connections, and countless other accoutrements of a major specialized health care facility. If the costs of all these support elements were allocated to one patient, imagine the total: \$50,000? \$100,000? Who knows?

For some, these expenses are unnecessary public welfare. For others, they are essential expenditures to maintain two freedoms. The first is freedom from the threat of violence by persons who are ill. The second is our civil right to be treated fairly, justly and sensitively.

For the public spaces that I enjoy, and my freedom to enjoy them, I pay taxes, because, as investor Warren Buffett is reported to have said, "Taxes are the price of liberty."

Tax Revolt—Pay More?

The Department of Natural Resources operates Turkey Run State Park, near Marshall, in southwestern Indiana.

This park is a jewel. Hiking, canoeing, horseback riding, star gazing, tennis, swimming, table games, campgrounds, hotel rooms and restaurant make this a complete vacation/relaxation spot, and the price is right: \$4 to enter; rooms for two at about \$55; meals \$9 or less, including the best buffets in the state. The park's naturalist gives one-hour lectures about topics such as the lives and sounds of owls and about constellations projected on the ceiling of a fine, intimate planetarium. Hikers and walkers along

the trails find a 19th-century home and a covered bridge. The scenic resources for artists and photographers are unlimited, as are opportunities for bird watchers. The park effectively handles youth groups as well as adult conferences, with plenty of time and space to get away from the hard chairs.

Our state parks ban alcohol. Smoking and pets are not allowed in any hotel or cabin space. If either is detected, \$100 is added to the bill. Signage around the park is clear, elegant, and noncommercial, providing a bucolic atmosphere of dignity and escape. Perhaps it is not an exaggeration to contend that our nation's state and national parks are the only places we

can go to experience an inexpensive time "away from it all." (Our favorite is the Great Smokey Mountain National Park, hardly eight hours from Indianapolis.)

Privacy?

As a result of legislation giving government more tools to uncover threats, electronic custodians will ask for more data about clients. The additional data will be driver's license numbers and/or passport numbers.

The trend to create more disclosure tools is not new. In the 1930s, Will Rogers said: "We must begin to live as though the family parrot is sold to the town gossip."

TIPS ON SUCCESSFUL AGING

- Live: Squeeze the lemon—Get everything out of life.
- Expand horizons: New friends and old. New experiences. New learning.
- Play: Hobbies. Service. Young people. Humor. Grandchildren. Laugh at politicians.
- Live near the young: College and university towns. Volunteer at schools.
- Adapt: Be flexible.
- Good health: Smoking? Alcohol? Weight? Exercise? Stable relationships.
- Cultivate Gratitude. Stay active.
- Pass on your wisdom: Museums. Historical societies. Environmental groups.
- Organize your financial affairs: Plan to avoid family conflicts and to reduce taxes.
- Listen to Mozart and Brahms.
- Like a sailor, always have an anchor.
- Like a sailor, always plan your next trip, and always know the nearest harbor.



This list is based on an outline from estate planning attorney Diane Hubbard Kennedy (317-254-1443). It was inspired by *Aging Well*, by George E. Valliant, M.D.

SAD, BUT TRUE

Between June and November, 2002, three WP&M clients ran from the stock market. They sold at the lows, unable to listen to voices of experience. They did not participate in the almost twenty percent improvement from last year to this year.

Odds are that these investors will return to the market in a few months or years, probably with new advisors, and probably in the milieu of another sharp upturn that captures the imagination and traps the unwary. Fortunately, all three clients have a solid net worth and good sources of personal income. They will live good lives. Still, our wish is that we could continue to know them, to help them, and to see them have additional financial security and liquidity that is available only by assuming risks in the stock market.

Good night, Dorothy. You done good.

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