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*You can
find us on
the Web at
www.wpam.com*

Here's our first —

This newsletter is for YOU and about YOU as an investor. It suggests ways to act, to think, to respond, to see. It asks you to look inside to find those elements of perspective and attitude that help YOU to make money, and it exhorts you to find new intellectual and temperamental resources that embolden YOU to take new risks, to see new opportunities, to participate in the great American game of wealth creation and management.

YOU are to become “Thoughtful” upon reading this newsletter. For example, what is your reaction to the cartoon by **Gary Trudeau** on page 4? What does it tell you about yourself, about your employer, about what makes a profitable investment in stocks? Does it have a message for YOU about management? The cartoon reminded me that a few years ago a friend proposed the creation of a new company. He said that he would be president, his wife vice president, his attorney secretary-treasurer, and I, if I wanted, could be director of sales. “Gee, thanks,” I said. “I get the easy job. I get to create customers while you presidentiate.” It was wrong. Do the companies in your portfolio have it right? Do they know how to generate positive feelings in employees that lead to higher productivity and continuing ethical conduct?

To find good stocks with good managements, you need a **list**. YOU can no more select investments without a list than you can buy groceries without seeing alternatives on grocery store shelves. The list sets your agenda. It displays your objectives. Is your list positive, or is it merely a litany of opportunities you refuse to consider? Find out by reading the story on page 2.

The history of the **savings & loan crisis** on page 3 is another study of management, good and bad. Less than fifteen years ago, banks and savings and loans were in deep trouble, but a few investors saw bargains amidst the rubble. When most investor-observers were crying foul, when editorials were criticizing government regulation and bad management, when millions felt hatred upon hearing names like Milken and Keating, a few investors saw low prices and opportunity. Where are the low prices today?

What opportunities are YOU overlooking, right now, today?

Perhaps **paging** is an opportunity? Use of personal pagers

has been growing at 30 percent a year. Who uses them, and why? The article on page 6 encourages YOU to assume the risk of investing in the paging industry, but it also asks YOU to go in with eyes open.

Finally, if you are deciding whether to invest in companies whose executives are paid \$50 million a year—or if you make \$50 million a year—read our **opinion** column. We do not obfuscate. Our point of view is clear: the money you make is the money you take. You take it from shareholders. You take it from employees. Give it back, at least give it to charity, or accept the risk of facing the metaphorical firing squad of investor rebellion and employee resentment.

And welcome to our first issue. We are glad you are here. 🍷

*“...the great
American
game of
wealth
creation.”*

Your List — On Paper or On Your Mind

The investor's list is the investor's world. The list is the paradigm, the medium, the universe of thought. Contents of the list either confine or release, preclude or facilitate. The best lists are written and original. The worst are mental and conventional. The best illuminate new opportunities, expand horizons, encourage the assumption of new risks, stimulate thought and promote action, but the worst lists restrict investors to old habits and points of view.

Every investor has a mental list. The list may be positive or negative. A positive list represents the sum of all investment opportunities the investor is willing to consider, and a negative list contains all the investment opportunities that the investor has ruled out. The positive mental list is practical and stimulating, while the negative list, though occasionally useful, is a stop sign on a road to potential profit.

Negative lists are the mental record of unacceptable investments; they frequently include general prohibitions, such as bonds-at-a-premium, limited

partnerships, commodity trading and life insurance, derivatives, as well as specific categories, such as stocks of companies in "socially unacceptable" businesses or in industries perceived to be too risky or too alien to the investor's life style. "I won't buy it because I don't understand it" is the investor's declaration that a proposed investment is on the negative mental list.

The most comprehensive negative mental list is implied by the personal balance sheet composed only of money market funds and CDs. For this investor, *every* growth opportunity is unacceptable. The result is mediocre returns.

Investors with positive and creative investment attitudes make money. Their mental lists are unlimited, and to them written lists are important references. A written list is someone's photograph of opportunities, a presentation of possibilities according to a criterion or to an epiphany. Brokerage firms and research companies, such as Value Line, publish lists according to criteria. Among the thousands of potential screening criteria are low-yield-to-high-yield, low-PE-to-high-PE, low-book-to-price to high-book-to-price, high-yield-and-low-PE, high-growth-and-low-PE, best suggestions of the week, and "our" (name of brokerage or research firm) recommended list. Countless investment suggestions appear in these lists. Meanwhile, lists derived from a realization, from an epiphany, generate valuable new ideas. An example of an epiphany I had is paging stocks (see story on page 6).

Many professional investment institutions explicitly define their styles in the form of an "approved list" of acceptable and recommended investments. Among consumer-investors, investment habits are less explicit and

often more narrow. Usually, consumer investors do not fully realize that they have a mental list, or a set of criteria, or self-imposed restrictions, but professional advisors serving individual investors consciously search for these personal outlooks.

Effective personal investment advisors sense what is on and what is off an investor's mental list. If an advisor suggests long-term bonds to a day trader in stocks, or speculative stocks to the income-seeker, the result is strain followed by separation and divorce. Hence, financial advice columnists suggest that consumer-investors should look for advisors having investment objectives similar to their own. They say, "To get

the job done your way, you must find an advisor who thinks like you do." At the personal level, this advice is compelling because it is pleasant for consumer-investors to deal with advisors having compatible temperaments and outlooks. However, consumer-investors do better with advisors who "tell it like it is," who challenge, cajole, and attempt to expand the consumer-investor's way of thinking.

The best advisors attempt to add new ideas to the investor's mental list and to suggest restraint to those clients burdened by an addiction to outrageous speculation. The most profitable investment opportunities arise from new ways of thinking, from seeing what others do not see. Investors with unlimited mental lists who frequently scan printed lists are most likely to find the next most profitable investment opportunities. These investors see bargains in the midst of chaos or crisis. However, investors who concentrate on the unacceptable, who see only risk and not potential reward, are naturally and inexorably limited to average results. ■

"Does your negative mental list produce mediocre results?"

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Opportunities in a Crisis

THE GREAT AMERICAN BANKING CRISIS

To buy stocks at low prices, buy stocks during a crisis.

Sounds easy, right? It isn't, for during a crisis, no one wants to buy. The important words are "no one." "No one" includes you and me.

Investment commentators say: "I buy when no one *else* wants to buy. When everyone wants to buy, I sell." Translation: "I am smarter than everyone else. I see what others fail to see. I know what "everyone else" is doing and thinking, and I do the opposite." To which I respond: How do you, Mr. Know-It-All-Self-Declared-Genius, know who "everyone else" is? Could it be that you, yourself, are part of the group known as "everyone else?" How do you know if you are the observer or the observed? Are you the one in a million who is investing when everyone else is selling, or are you part of the other group that is buying when you should be selling? It is impossible to know.

The investor who says "I buy when no one else wants to buy," might find profit in following an alternative method: "I buy when *I* do not want to buy. When my emotion-laden inner reasoning chips say, 'don't buy, don't buy,' the time might be right to invest." During the banking and savings and loan crisis, no one wanted to buy stocks of financial companies. Newspapers, magazines and television commentators were telling us daily that savings and loans were going out of business because of bad real estate loans and that large banks were threatened by non-performing loans to other nations and to companies in other nations. The media convinced us that savings and loan executives and big bond dealers were destroying the financial system, and we responded with hate. We hated Charles Keating for being what *Time* recently called "a high-living white-collar sociopath," an 18-hour-a-day workaholic who traveled in private jets

and who, in only four years, took the \$600-million Lincoln Savings & Loan to over \$6 billion, only to see it all wiped away in the most costly savings and loan failure in US history. We hated him. We hated savings and loans. We did not buy financial stocks. How could we? We hated too much.

Our hate and fear prevented us from recognizing a fundamental American truth: our national financial strength cycles from strong to weak and back to strong. The boom times of post-World War I America were followed by depression and financial crisis. Then, in 1933, very smart people created a strong system based on deposit insurance (up to \$2,500) and on regulations about who could do what. Only commercial banks, mutual savings banks, and savings and loans were allowed to accept consumer savings deposits. S&Ls and mutual savings banks could not offer checking accounts and could lend only for residential mortgages. Interest rates were limited, but thrifts could pay up to 1/2 of 1 percent more than banks to promote construction of residences. Commercial banks were prohibited from paying interest on checking. This system worked during periods of deflation and low inflation that occurred between 1933 and the early 1960s, but it did not work when Vietnam-war-Arab-oil-embargo inflation changed the way Americans think and act. For example, a couple who deposited \$10,000 in 1965 at a regulated 5 percent maximum interest rate saw the purchasing power of their nest egg decline by almost 25 percent by 1980. Money ran away. It particularly ran away from savings and loans. In 1961, S&Ls had \$85 for every \$100 of time

deposits with commercial banks. By 1970, the ratio was \$69 for every \$100 at commercial banks. This situation could not endure in a nation that looked to savings and loans to finance homes.

Change began in 1972 with creation of the NOW account in Massachusetts and New Hampshire. This was an interest-bearing checking account at a thrift. Meanwhile, inflation continued, and by 1980 thrifts were forced to pay upwards of 9 percent to support mortgage portfolios having yields of 8 percent or less, a loss that could not be sustained. Hence, more reform. Deposit

insurance was increased to \$100,000, S&Ls were given permission to create variable rate mortgages and to make loans for shopping centers, office buildings, undeveloped land and other projects no more durable than barbecue stands.

S&Ls even were allowed to acquire junk bonds, the debt of low-rated corporations. Finally, S&Ls could accept brokered deposits, which are certificates of deposit sold by major brokerage firms. The result: S&Ls could raise money anywhere and lend it everywhere. Hence, a Charles Keating could raise millions by offering high rates to depositors, and a Michael Milken could create junk bonds with yields that Keating and others could not resist. And who would pay if a loan went bad? Just one person: Uncle Sam, who insured depositors.

In a 1992 lecture, L. William Siedman, former chairman of the Federal Deposit Insurance Corporation, described the trends that led to crisis. According to him, the 1980s produced the greatest debt binge in U.S. history. While Presidents Reagan and Bush lectured

"At the point of maximum hate, we should have bought."

— continued on page 5

O P I N I O N

Does the top person in your company take \$50 million a year, or some other amount that exceeds community standards? If so, fire him, or at least avoid his stock.

In a *Forbes* interview (March 10, 1997), Peter Drucker said, "In the next economic downturn there will be an outbreak of bitterness and contempt for the super-corporate chieftains who pay themselves millions. In every major economic downturn in U.S. history the 'villains' have been the 'heroes' during the preceding boom." The tycoons of the 1880s became the 'robber barons' of the 1890s. The great speculators of the 1920s, such as J.P. Morgan and Jesse Livermore, became Roosevelt's "malefactors of great wealth," who lived well while others suffered. "Few top executives," says Drucker, "can even imagine the hatred, contempt and fury that has been created—not primarily among the blue-collar workers who never had an exalted opinion of the 'bosses'—but among their middle management and professional people."

Companies defend high compensation. CEO-appointed press representatives and CEO-appointed directors like to say that CEO compensation "reflects the unique contributions he makes to the company's long-term strategic performance as one of the leading innovators in his field." Such language may make sense in the closed board rooms of corporate America, but it does not make sense to millions of professional citizens who labor 14 hours a day for much less.

"Every American must believe that reward is proportional to responsibility."

This year's villain is Disney's chairman Michael Eisner, who earned \$8.7 million in cash while accumulating options worth over \$238 million, and he was awarded options on \$8 million more shares at the 1997 annual meeting. In my view, he has taken too much. He does not need it, and, by accepting it, he threatens to dampen the creative enthusiasm of Disney professionals as well as the support of all Americans. (Mr. Eisner also helped negotiate a severance package for Michael Ovitz, who resigned as Disney's president after 16 months service. The package was valued at \$76 million.)

The right to economic opportunity is fundamental. For America to excel, every American must believe that reward is proportional to labor and to management responsibility. "Proportional" is the important word. Executives who "pay themselves" more than an amount believed to represent their contribution to society threaten the system that makes us free. According to philanthropist George Soros, the way to keep America a free market is to protect it from the excesses of free-market ideology, for in his view no ideology is infallible or permanent. (*Time*, April 21, 1997)

Chief executives must respect shareholders, employees, and the American free enterprise system. The system is strong, but not invincible. Hence I plead with chief executives to return exorbitant compensation either to the corporate treasury or to nonprofit organizations, and I ask investors to avoid companies whose managements are insensitive to the larger needs of our country. ▀

Doonesbury

BY GARRY TRUDEAU



Crisis – Continued from page 4

on the importance of a balanced federal budget, their laissez-faire programs allowed and encouraged businessmen to build empires based on debt. Aggregate debt increased from \$4 trillion in 1980 to \$11 trillion in 1990— from 1 1/2 times GNP to 2 times GNP— or 33 percent percent. Home mortgage debt went up from 37 percent to 59 percent of the value of the real property under mortgage. Business debt went from 25 percent to 42 percent of stockholders' capital, and cash flow to cover debt declined. During the same period, consumption increased and personal savings decreased. As a nation, we loved debt, and we admired the individuals who became mega-millionaires by creating and selling debt. Prior to his conviction, Michael Milken visited Indianapolis to receive a national business group's most prestigious award, and we flocked to the luncheon to see whether some of his wealth and some of his greatness and some of his talent might rub off on us. A few months later, we hated him and everyone like him. At the point of maximum hate, we should have acquired stocks of financial companies.

Unfortunately, banks also participated in the debt problem, though for slightly different reasons. In the rush to deregulate, Congress in 1982 removed previous restrictions on banks' lending for real estate construction and development. Banks could lend to developers who contributed no equity. Concentration limits were eliminated. Tax incentives were created. Disaster ensued. By 1989, nine out of the ten largest banks in Texas failed or would have failed without rescue, and the principal cause was loans that would have been illegal prior to 1982. The same illness was found in the failure of The Bank of New England where 80 percent of the loans that caused failure were construction and development

loans that were illegal prior to 1982.

Financial failures, evil men, Congressional hearings, investigations by journalists, repeated stories of incompetence, fraud, manipulation and failure on every evening newscast conspired to convince us that financial stocks were bad investments, and no stories appeared about the fabulous American habit of recovering from disaster. No one told us that opportunity hides in crisis, and most of us missed the opportunity to acquire financial stocks at historically low prices.

The history of Citicorp illustrates this point. Between 1982 and 1991, Citicorp's financial condition declined to potentially catastrophic levels. Hemorrhaging from losses in

“No stories appeared about the fabulous American habit of recovering from disaster.”

loans to foreign nations and to the real estate industry, Citicorp recapitalized in 1991 and 1992, raising nearly \$2.6 billion from Saudi prince al-Waleed bin Tala and others. The company also sold assets and eliminated dividends, and it was placed

under regulatory supervision, limiting its ability to make loans. A ten-year low of \$8.50 per share occurred in 1991 and investors earned no dividends in 1992 and 1993. But the patient, pre-scient investor then experienced rewards for buying and holding. The low price of Citicorp was \$10.38 in 1992, \$20.50 in 1993, \$36.00 in 1994, \$38.50 in 1995, and 62 in 1996. The stock was 127 1/4 on July 15, 1997. Another financial company, Great Western Financial, went from a low of \$8.50 in 1990 to \$47 by July, 1997, while during those same years H.F. Ahmanson & Company went from a low of \$10.63 to \$47.

Bernard Baruch is reported to have said that “the best time to buy a straw hat is in winter,” the season in which no normal mortal wants to leave a warm home to acquire an asset having no utility for months to come. A master at

acquiring stocks during difficult periods is legendary investor Warren Buffett who was acquiring American Express despite erratic earnings in the early 1990s. Other opportunities were Eli Lilly & Co. in 1983 when the company's important arthritis drug Oraflex was found to have caused several deaths, or stocks in general during the week before President Bush ordered our planes to fly against Iraq. (In my twenty-seven years as a brokerage firm account executive, the quietest day was January 17, 1991, the deadline for Iraq to withdraw from Kuwait. Our phones did not ring, our staff did not initiate telephone calls, and stock exchange volume was extremely low. But it was a great day to invest, for by the end of that year The Dow Jones Industrial Average achieved a total return of 24.19 percent.)

At mid-year, 1997, we have no obvious crises. The last major, visible crises were the devaluation of the Mexican peso and the financial failure of Orange County, California, in late 1994, nearly coincident with the low point prior to the 1995-1997 great bull market. However, all markets have crises that present opportunities to the diligent investor. Some crises are fundamental, such as war, death of a president, financial failure and massive fraud. Others are crises merely of price (although some argue that a crisis of price predicts a fundamental crisis, or at least a relative decay of fundamentals, such as earnings). In “good times,” periods of no obvious crises, investors must first look to price to locate bargains. Such bargains are found in lists of poorly performing industries. Currently, one such industry is paging, discussed elsewhere in this newsletter.

References: *Other People's Money*, by Paul Zane Pilzer; “Focus on the 90s: Economics at Home, Turmoil Abroad,” The M.L. Seidman Memorial Town Hall Lecture Series, 1992; *The Bankers, The Next Generation*, by Martin Mayer; *The S&L Insurance Mess*, by Edward J. Kane; *Where Deregulation Went Wrong . . .*, by Norman Strunk and Fred Case; *Thriffs Under Siege*, by R. Dan Brumbaugh, Jr.)

P A G I N G

They are everywhere. Inside pockets and purses. Attached to belts. Glued to the sides of cellular phones. Resting on dashboards and between seats. Hidden in day sacks under school desks. They are pagers, devices so small they hardly are noticed, except when sounding during a quiet moment at the ballet. They are coveted and hated. My daughter wants one badly, but my plumber cringes whenever his sounds.

Are paging companies good investments? Are they Peter Lynch donut shops? With usage growing at over 30 percent per year, my guess is that some investors will make big money by acquiring paging stocks, but this is a risky game, for paging companies are aggressively financed, subject to regulation, rapid technological change, and intense competition.

The paging industry started in 1949 when the Federal Communications Commission first allocated frequencies for mobile communications services. Everyone wanted in, and today several thousand companies offer paging services, many to small, local areas. Yet 64 percent of the more than 42 million pagers in service are served by the 10 largest companies. In ancient days (like ten years ago), pagers produced only tones or numbers. Today they send letters and numbers, including stock market and weather reports. Two-way messaging is just around the corner, not to mention digitized voice, "confirmation" or "response" paging, and notebook and sub-notebook computer wireless data applications. However, the investment is huge. A single paging transmitter has an effective operating range of only 20 to 30 miles. So, how many transmitters does it take to cover the

United States? Don't ask, because I don't want to know. (One company alone, Paging Network, Inc., had 6,498 transmitters at the end of 1995 and pagers worth over \$312 million. In addition, it had invested \$197 million at auction for the right to use specified frequencies. This is a very expensive business.)

It is not hard to imagine that over 60 million pagers will be in use by the year 2,000. Pagers are convenient, economical, personal, and relatively unintrusive (compared to cellular phones). New uses are found every day, and at some point companies will be able to increase prices without losing customers. For example, a 50 cents per month price increase is not likely to disturb a customer, but the increase will generate additional revenues of over \$360 million per year industry-wide. Presently, however, competition is so intense, and the capital investment so huge, that no one can tell for sure who is going to win this game. Most companies have borrowed heavily, leaving themselves with negative net worths and annual income statements that confuse most investors. While paging companies have positive cash flows (earnings before

interest, income taxes, depreciation and amortization, or EBITDA), net earnings per share often are negative. Hence, no price/earnings ratio is reported, a real challenge for the average investor who wants to compare one company to another.

But mark these words: some companies will make BIG money in paging services. Paging is a necessary service growing at a spectacular rate. I recommend that investors commit to this industry by acquiring several companies from the list below. Remember our caveats: principals and clients of WP&M may own shares in these companies; and the investment risk is yours. (Please call 317-228-0800 and leave a voice mail message telling us which companies you purchased and why, or e-mail the same information to thotfull@in.net.)

*Peter Lynch is former manager of The Fidelity Magellan mutual fund. He suggests that any investor can profit merely by observing who is successfully selling a product or service. An example is his spectacularly successful investment in a company that sells donuts.

PAGING STOCKS		
	Company 52-week range	Price Recent*
PageNet	5.75-24	9
Arch Communications	3.75-18.37	7 7/8
Metrocall	3.50-10.12	5 9/16
PageMart	4.37-11.87	7 7/8
ProNet	2.37-10	4
Mobile Telecommunication	5.12-16.75	13 3/8
*July 15, 1997		

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