College Bound
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I looked at the possibilities for investment for our family. I began at www.savingforcollege.com, selected **529 intelligence**, and then **Delaware**. I found that Fidelity manages the Delaware plan (www.fidelity.com/delaware has more information), Delaware gives no tax incentives for investing in the programs, and the investment approach was age-based.

Since the state of Delaware gives neither state income tax deduction for contribution nor income tax exemption on distributions, there was no advantage in automatically choosing my resident state plan over any other state plan. Forbes published an article "College Savings 101" in the 10/30/2000 edition. It listed all the states that do not have residency requirements for investors. So these were all candidates for my selection. I found them from www.savingforcollege.com by selecting more resources, articles & links, College Savings 101.

I was intrigued by the age-based plans. When the plan utilizes an age-based allocation, it changes the investment allocation as the student approaches college age to more conservative vehicles. This made sense to me, however, as with any financial planning decision, it needs to be viewed as part of the whole picture and not in isolation. I'm going to leave the investing side of the decision up to Paul and concentrate on understanding the program.

When looking at the big picture of funding college, I could not neglect the issue of financial aid. Since the 529 plan is considered an asset of the owner, whom you choose as the designated owner can affect the financial aid calculation. Anyone that is considering applying for financial aid should understand the implications on the financial aid process of choosing a plan owner, beneficiary, and specific plan. Further discussion is in Joe Hurley's "The 529 Plan Report" Volume1, Issue 1.

Another aspect of the decision was how it affects estate planning. The contribution for a 529 Plan is considered a gift to the beneficiary in the year it is contributed (not the year it is used). Also, the contribution can be covered by the annual gift tax exclusion. Obviously, this should be considered when reviewing your estate planning, since it has significant estate planning possibilities. Joe Hurley also has an in depth discussion concerning estate planning and the 529 Plan in his E-ditorial article Number 00-17 and "The 529 Plan Report" Volume1, Issue 2.

The last major consideration for our situation was the issue of investment control. Selection of a plan and plan manager is important because once the plan is opened, you have no control over the investments unless you change plans, and this is under the control of the owner.

There are many aspects of the decision on how to participate in college saving. Each investor's circumstances are different and there is no "right" answer. College costs can creep up and it is never too early or too late to consider your options. As each law is adjusted, it is important to understand how it affects your options. Hopefully you now have a foundation for asking questions and evaluating answers from your tax, legal, and financial advisors. As always, when considering one area of your financial strategy it is important to view it in the context of your overall financial situation.

E-Update ....

This is your last opportunity to update your email address book! Please replace reference to mailto:mamcorp@concentric.net with mailto:paul@mallardasset.com . You can send messages to Pam at pam@mallardasset.com.

I am about to embark on the development of an initial website. If you have any suggestions for content, please let me know.

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The Mallard Message

Volume 4, Issue 4 December 19, 2000

Inside This Issue

Frequently Asked Questions

1. Who is Mallard? I founded Mallard in late 1996, and am the sole full-time employee. My wife Pam began working regularly for Mallard in October. She provides office administration help, and also 'para-planning' support such as spreadsheet development. Becky Tinsman worked at Mallard for most of the past year, but resigned this fall to accept a full-time position in her field of Physical Therapy. Margaret Badger has worked part-time at Mallard for over a year, and is a financial librarian (one who tries to keep me from burying myself in paperwork). Jennie Gallons, a senior at the University of Delaware, worked this summer and part of the fall as a research assistant, focusing on common stocks.
2. How is Mallard's growth? In the past fifteen months Mallard has increased from 17 to 25 clients. That is 50% growth, and brings us within striking distance of my initial limit of 30 ongoing clients. Welcome to all recent clients, and thanks to all of you who help by spreading the word. This growth has only been manageable through the increased use of technology, and through increased staff support.
3. How did the 2000 Delaware Everywoman's Conference and your seminars go? The conference was fun; I was able to meet many new people, and I was able to help my table of attendees more fully benefit from the conference. I offered seminars on Monday evenings afterwards, and they went quite well. We were even able to handle a crisis, when the building where we were to meet was locked on the last evening-we all climbed into our cars and crowded into a small meeting room in my office building. Boy, what a friendly group we became!

Winter Plans

I have no set travel plans this first quarter of 2001. I will be giving a presentation on Exchange Traded Funds to the Delaware Valley study group of the National Association of Personal Financial Advisors on January 18th. I will likely attend the Groundhog 2001 Conference on February 1st in Philadelphia. My son's Spring Break is the last half of March, so it is possible that I will take up to a week off during one of those weeks.

Whenever I am away from the office for more than one business day, I check my phone messages and return all urgent ones.

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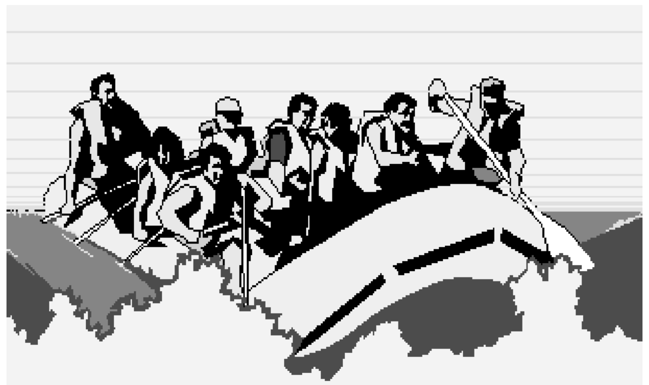
Rough Waters Ahead?



WARNING-READING THE FOLLOWING ARTICLE MAY BE HAZARDOUS TO YOUR IRRATIONAL EXUBERANCE.

Last week I attended a luncheon workshop on the US Equity Market Outlook and Portfolio Strategy, given by Michael L. Goldstein, the Chief Investment Strategist at Wall Street firm Sanford C. Bernstein & Co. While he did not predict the end of the world, his outlook was far from rosy.

Mr. Goldstein fears that, like the markets in the late 20's and early 70s, our hot stocks have hit their peaks, and will not return to those heights for a very long time. When these sharp drops have occurred in the past, the critical issue is how the rest of the economy is doing. He does not feel that this bodes well for 2001.

One of the problems with economic outlook for 2001 is that the medicine the Fed is able to dispense is ill-suited to cure the US economy's current ailments. The major trick the Fed has to soften our landing is to reduce very short-term interest rates. Long-term interest rates are almost a half-point lower than they were one month ago, are about 3/4 points lower than their level one year ago. As long-term rate reduction is generally needed to encourage companies to increase their spending, there is little the Fed can do to help in this area. Consumer spending has slowed; it is likely that this is partially due to the inverse of the 'wealth-effect', as paper losses in mutual funds, stocks, and company stock options have caused the US consumer to hold back on purchases. As the country's overseer of the US economy, the Fed does not have great solutions to the US stock markets.

One year ago, new-economy bulls (those who focus on technology, telecomm, and media companies) argued that the strong growth in sales and earnings for technology firms was all that mattered. However, old-economy firms (the rest) do 63% of capital spending. When these firms slow their purchases, even technology firms are in danger, and these old-economy firms indeed began slowing their purchases in the second half of 2000 as their earnings came to a screeching halt. Typically old-economy firms cut back first in their non-technology purchases, but when an economic slowdown persists, their rate of technology purchases must fall.

Many market watchers, including Alan Greenspan, point out that US companies have become more efficient through the use of technology. Goldstein points out that when companies buy technology, they have increased their fixed costs and restrained their variable costs. This is extremely positive while sales are rising. Unfortunately, this will lead to sharper earnings drops when sales fall.

Mr. Goldstein is quite concerned with the rise in the use of options for compensation. His primary concern is that this is an expense for the company, but it is not reported when the company grants the options. Instead it affects the company's profits when the employees exercise the options, typically several years later. This creates a 'huge timing difference', and likely obscures an additional 2% in annual salary growth in the US. In turn this can result in misleading inflation and company earnings reporting.

Following the lead of consumers, companies are back to their high borrowing habits. While companies had substantially reduced their borrowing from 1988 through 1996, this has been completely reversed in the past three years. Almost 40% of the debt growth has been in the new economy, even though these industries make up only 6% of the country's Gross Domestic Product.

In the past ten years, US households have more than doubled their exposure to stocks. Surprisingly, this is true across all income groups (although it is up even more so for most higher income households). On a hopeful note, in the past year, the average retail investor has reduced their expectation for stock market returns over the next decade from 19% to 14% annually. Should they drop closer to the 8% to 11% range, they will reach the expectations of the average professional investment advisor.

He concluded by pointing out his favored sectors (non-tech growth such as pharmaceuticals and medical suppliers), that retailers are cheap, and that financial firms may be a 'value trap' due to their declining quality of debt. He suggested increasing industrial cyclicals when the value of the dollar declines, and increasing consumer cyclicals when Greenspan actually acts to reduce short-term interest rates.

Three Month Activity

In this section I review the significant investment actions I have taken over the three months ending December 14th. Several new accounts came in which led to more activity. The stock market slide provided incentives to realize losses, and reduce income taxes, also leading to more activity. Due to the high level of activity, I shall only mention some of the larger transactions.

MUTUAL FUNDS

I purchased Columbia High Yield, EuroPacific Growth (within a company retirement plan), several Fidelity funds (again, within a retirement plan), Janus Overseas, UM Behavioral Growth, Vanguard Index 500, Vanguard LifeStrategies Growth, and William Blair International Growth.

The quarter's sales were generally prompted by tax reduction, underperformance concerns, or scheduled allocation changes. Funds reduced or eliminated during the quarter include Federated Total Return Bond, Fidelity Cash Reserves, Fidelity Long Term Income, Fremont Bond, Hancock Regional Bank, Janus Overseas, P&R Global Fixed Income, Royce Low Priced Stock, T Rowe Price Equity Income, Templeton World, Vanguard Bond Index, Vanguard Intermediate Term Corporate Bond, and Vanguard Total International.

SPECIALIZED FUNDS

I purchased several closed-end and other exchange traded funds, including Nasdaq 100 HOLDRs Trust and the S&P 500 SPDR. I sold MSDW High Yield as the discount on this closed-end fund had shrunk. I sold some shares of the S&P 500 SPDR to realize losses.

BONDS

I purchased over $150,000 of individual bonds, including TIPS (inflation protected treasuries), and I also twice purchased $100,000 in very short-term paper, as an alternative to money market yields.

STOCK PURCHASES

There were many opportunities to buy stocks at (steadily) dropping prices. I purchased Applied Materials, AstroPower, Intel, and Nokia.

STOCK SALES

There were also innumerable opportunities to sell stocks and realize losses. Most often I would rotate out of one depressed stock into a peer. During the quarter I sold Lucent and Microsoft to seal losses, and sold some Providian to seal in a strong gain.

OPTIONS

I sold $28,000 worth of covered call options, and about $4,500 of uncovered puts. The call options generally provided a bit of a cushion in the face of a declining market; I wrote about this a bit in the September newsletter.

College Bound

Editor's Note-When Pam joined Mallard part-time in September, I warned her that I would like for her to develop an article for the newsletter. This quarter she chose the topic of QSTPs, Qualified State Tuition Programs, also known as Section 529 college savings plans.

I sometimes see myself as a student of many things and master of few. One area I was eager to study is the new 529 College Savings Plans. My goal was to understand the program enough to ask reasonable questions and feel comfortable with the answers. I'd like to share my journey with you to help you make informed decisions concerning the 529 programs by having directions for further research or having the ability to ask great questions when discussing it with your tax, legal, and financial advisors.

As I started my adventure in learning about 529 College Savings plans, I first went to http://www.savingforcollege.com. It has a wealth of information. Its author, Joe Hurley, is well versed in the current status of legislation and the tax implications. He writes "529 E-ditorials" regularly that you can access online or you can subscribe to his newsletter.

The basics of the 529 plan are that a contributor can put money into a State 529 College Savings Plan Account with after tax monies. The income grows tax-deferred, but is taxed at the beneficiary's tax rate when withdrawn and used for a qualified expense at a qualified institution. Unlike the 529's predecessors, these plans do not lock you into a single college or list of state colleges.

When the account is set up you designate an **owner** who controls the account, and a **beneficiary**-the student. The owner can transfer the account to a new plan (the plan can only be changed if the beneficiary is changed), close the account (with penalties), or leave it alone. The beneficiary, who can also be the owner, is permitted to withdraw the funds. If the funds are used for qualified expenses at a qualified institution, the income portion of the withdrawal is taxed at the beneficiary's tax rate. If the funds are not used as directed, there are penalties involved and this appears to be quite complicated.

Most states have 529 College Savings Plans; several states have a choice of plans. Some states give state income tax benefits to residents. Most states contract with an outside brokerage to manage the plans, while other states manage them in house. Setup fees, annual fees and management fees vary.

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