# "Enough's As Good As a Feast"

Over the years I have come to love this quote from Mary Poppins when she offers guidance to the children regarding sweets. It applies to so many situations where we find ourselves frozen in our comfort zones. Certainly it is very appropriate when reviewing the past two years.

With investing this paralysis can result in letting our winners ride, and avoiding investments that have not been used and also avoiding those that disappointed in the past. Unfortunately, this can lead to a lack of diversification.

Most US investors probably began 2000 invested too heavily in large US stocks. This is the result of having invested profitably in this manner for several years, and growing comfortable with this, even shifting more dollars to this 'sure long-term investment approach'. It is amazing how effective positive reinforcement can be.

Mallard's approach is 'moderation in all things'. We devise an all-weather allocation target for each portfolio. Other than very modest tweaking, we keep to this target. Keeping to allocation targets mean selling winners and adding to losers, which Peter Lynch derisively describes as 'picking the flowers and leaving the weeds.' This can be quite difficult. When in late September I proposed that clients add to their beaten-down US stock positions, many were uncomfortable as they had seen these investments fall in value for most of the past year and a half. However it is exactly these uncomfortable moves that prove the most effective in asset allocation. Mary Poppins observes 'Practically perfect people never permit sentiment to muddle their thinking.' (I'll bet you didn't know that Mary Poppins was an asset allocator).

Mallard's approach also calls for many kinds of stocks, not just large US stocks. It is common for new clients to bring portfolios that are heavily invested in large US stocks, similar to the S&P 500. I generally recommend moderation here also, with smaller US stocks, some foreign stocks, and some bonds.

In many cases these changes are difficult, as they involve venturing outside comfort zones. This can be maddening when markets reward concentration and punish diversification. In 1998 and 1999 investors who had large allocations to S&P 500 stocks were rewarded. 2000 and 2001 have helped support the middle ground, as smaller US stocks have held up much better than large ones, and bonds have enjoyed two strong years. Now if only foreign stocks would behave.

With Mallard's five years as a backdrop, we can see that the best time to have invested in bonds was in early 2000, when it was most difficult. Bonds had lost money in each quarter of 1999, and stocks were soaring. As Bert from Mary Poppins observes 'What a fortuitous circumstance!' It is precisely at these times that we need to rebalance, and to feast on the benefits of diversification.

I try to expand my comfort zone by increasing my knowledge and experience base. In some cases this comes from ideas I get from readings or from conferences. In other cases this comes from conversations with other advisors or with clients. Several years ago at the urging of a client, I began the use of covered call options. I now use options in several client accounts as a risk-reduction technique. In late 1999 I began using a mutual fund based on a commodity index after a discussion with the fund manager at a conference. Recently a client encouraged me to investigate preferred stocks, and after some research we began limited use of these in the client's account. Three years ago at a conference I learned about the Merger Fund's approach to 'market neutral' investing. When it re-opened to new investors this past Fall I eagerly added it to many accounts.

Consider resolving to step outside your comfort zone a bit in 2002. If you primarily have large US stocks, use new contributions to test the waters in new areas, such as smaller US stocks and overseas stocks. The result could be a Supercalifrajalisticexpialidocious feast!

# Conference Report

In February I will attend the 2002 TD Waterhouse National Advisor Conference in Orlando. I expect to hear from several mutual fund managers, hear speakers including Steve Forbes, Frank Cappiello, Robert Reich, and William Seidman, attend sessions on tax-sensitive investing, indexing, the advisor industry, and learning how to better utilize Waterhouse's services.

At the 2001 NAPFA Northeast MidAtlantic regional conference in October in Burlington Vermont, I heard from several mutual fund managers, learned more about stock market indices, the use of stock options, office technology, and compliance. I hosted a very popular roundtable discussion on Stocks—When to Hold Them and When to Fold Them. Just prior to the conference I enjoyed a day trip to Montreal with about twenty financial planners. To top it all off, the leaves were gorgeous!

Volume 5, Issue 4 January 4, 2002

# The Mallard Message

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## Frequently Asked Questions

1. **Is there anything worthwhile on the Mallard website?** Yes. In addition to posting the quarterly newsletter, and the quarterly Market Review and Outlook, I update the article listed under Interesting Tips every month. I also post articles in which I am quoted, including the October article in Business Week. If someone asks you for information on Mallard, please feel free to refer them to the website.
2. **How is the new office?** We quickly settled into our new offices in the same building we've occupied for five years. This office was large enough to hold the two investment seminars in November. I have added a large monitor to the conference room for presentations.
3. **Do you have a minimum account size?** I would like for new clients to have accounts totaling $250,000 or more. In this manner I can better serve my ongoing clients by avoiding being spread too thin. I continue to offer one-time investment to investors with fewer assets, or those who are seeking a one-time review rather than ongoing investment management. And yes, I am still accepting new clients.
4. **How did your recent seminars go?** I always enjoy speaking about investments. On two successive Mondays in November I shared information for close to two hours on general investing, and another two hours on mutual funds in particular.
5. **What's this I hear about you going to Vegas?** I have been asked to offer a presentation on bonds at the 2002 AICPA Advanced Investment Management Conference in Las Vegas in late May. I am very excited about this opportunity to meet CPAs who offer investment services to their clients, and to share some knowledge with them on investing in bonds. (Pam and Mike are also pretty excited.)

## Winter Plans

My next conference is in Orlando from February 19th to the 24th. Pam and Mike will be joining me for much of the time. I hope to attend several of my son's basketball games on Tuesday and Thursday afternoons in January and February. Thus far his team is 1-1.

Whenever I expect to be away from the office for more than one business day, I send an email to my clients. I also check my phone messages and return all urgent ones while I am away, and often I check my 'traveling email account <mamcorp@yahoo.com>.

## Inside This Issue

# 2001 Lessons

No, I don't plan to list more than two thousand lessons, but rather reflect on wisdom we've gained during a very challenging year.

There is a difference between a blue light special and a going-out-of-business sale. When the price falls on an item, only hindsight enables us to differentiate between a good and an awful deal. After technology stocks fell 32% in 2000 we were not given a great buying opportunity—we were given a great losing opportunity. However, when the S&P had fallen 9% in 2000 and 21% in the first nine months of 2001, it does appear that we were given a great buying opportunity to rebalance our portfolios and get our allocation to stocks back up during late 2001.

Streaks are good until they are bad. Technology stock funds rose each year in the 1990's. If you determined that they were overpriced at the end of 1998, then you missed a +135% surge in 1999. Then in the following twenty-three months they fell more almost 60%, wiping out all of 1999's gain.

Bonds are very misunderstood. Like most investments, they are best when no one wants them, and worst when you hear the most about them. The very fact of their steady performance in 2000 and 2001 makes them less attractive for 2002. Unfortunately the press and the mutual fund houses are touting the strong recent performance when that very performance is a serious drag on upcoming results.

Match investment approaches to investment needs. An 100% stock portfolio is no better suited to an 80-year old investor who relies on investment cash flow than a 100% bond portfolio is for a newborn's education portfolio. There have been potholes in the road, and they will continue, but there are also pleasant surprises. After rising over 400% from 1997 to 1999, during 2000 and 2001 Safeguard Scientifics proceeded to fall 93%. Providian Financial rose more than 400% from 1997 through 2000, only to fall 92% during 2001. Corning is a third example of a stock that did not go the way I had hoped in 2001. D R Horton, AstroPower, and Applebees are examples of stocks that did surprisingly well in 2001 despite a hostile backdrop, each rising 30% or more.

When you have lemons, make lemonade. At the end of 2001, after two losing years for stocks, I was very persistent harvesting income tax losses. (I partially blame the late date of this 'December' newsletter on the time required for this activity in late December.)

The devil is in the details. Taxes, expenses, and implementation matter. Investors with taxable accounts that had been dropping for two years could help themselves by aggressively harvesting income tax losses, even if they harvested more losses than they could use in 2001. During most of the 1990's mutual funds were chalking up returns of more than 10% a year. In this environment a fund with a high expense ratio could afford to advertise heavily and pay brokers a hefty load to sell the funds. With returns back to earth, smart investors are focusing on results, not ad space. Little things, like concentrating high turnover funds in IRAs and low turnover funds in taxable account can increase your portfolio, after taxes, and money in your pocket after taxes is the money that matters.

# Top Holdings

In this section I review top holdings for client accounts (greater than $100,000 when consolidated). The data for this report comes from the December 15, 2001 positions and for transactions during the prior three months.

**Mutual Funds**—Artisan Mid Cap, Columbia High Yield, Federated Mortgage (new top holding), Fidelity Diversified Int'l, Fidelity Long-Term Income, Janus Overseas, four Vanguard stock index funds, two Vanguard bond funds including Vanguard GNMA (new top holding), Vanguard Variable Annuity Small Company Growth, and William Blair Int'l Growth are all large holdings. I reduced several bond funds including Fremont Bond and several Vanguard bond funds during the three months. I introduced the Merger Fund to many accounts; this fund re-opened to new investors in October.

**Specialized Funds**—No closed-end funds are held with $100,000 or larger positions. S&P 500 SPDRS and S&P Midcap 400 SPDRs continue to be the two large holdings of exchange-traded funds.

**Bonds**—I added $180,000 in bonds, primarily a very short-term municipal bond. $345,000 in bonds were called or matured, including $150,000 of short-term commercial paper. Due to the low-level of stock prices during the quarter, I was shifting money from bonds to stocks, which explains the relatively small amount of bond purchases during the period.

**Stocks**—GE and AstroPower are the sole positions at $100,000 or more. I sold much of the Exxon-Mobil, and Providian's price dropped 82% during the fourth quarter (both were on the top holdings list in September). $40,000 or more was added to GE, and JP Morgan Chase. Many sales and swaps were made during the quarter to harvest tax losses to reduce clients' 2001 income taxes.



# Hitting the Books - *On the Web*

*In this issue Pam Baumbach continues her journey on the web. Here she reports on the web resources she used in December while searching for some medical resources.*

I have always been inspired by the saying "Got a Problem, get a Plan!!!" To get a plan I need to understand the subject so I can ask the right questions and develop an informed plan.

At a doctor's office recently, I was introduced to a topic that I knew very little about. Having to make decisions about a future plan and knowing nothing about the subject … I needed some information. My first step was to gather information; I hit the Internet. I'm still a novice at using the search engines, how complicated can it be? It was definitely a learning experience. In my first try I entered the medical term, and got 1,304,696 matches, WOW! I added a qualifier to reduce the scope and still got 416,606 hits. Since this was a subject I was just learning about, I had run out of terms to reduce the scope of my search. It's like trying to learn how to spell a word using a dictionary. I needed a new strategy.

I called the doctor and asked for some direction. He gave me the name of an authority in the field and the title of one of his books. This made a world of difference. First I went to www.amazon.com, where a few of Dr. Levine's books were available. I liked the Amazon feature that permits you to see parts of the book, including the cover (and back), table of contents, full index and an excerpt (the first five pages of the introduction). These are the same things I look at in the bookstore when deciding whether to buy a book. The site also showed that Amazon would sell the book, but before buying it, I wanted to be sure it was the right book for me.

So I went back to the search engine. Next step was to search on the author. This gave me 5,828 hits; it's getting better. I started scanning the hits. Several had some useful information about the author and what he specialized in. This was nice to know but not enough information. I continued to browse. It wasn't until the fourteenth item that I found an interesting web site. While the site was informative, it had a web link where I hit the jackpot!!! Dr. Levine had formed an organization based on the application of his research and the organization had their own web site.

A quick note: while retracing my steps during the writing of this article, I accidentally used a different search engine. The number of hits was about the same but Dr. Levine's web site (which was not on the first search list) was listed 3rd. So performing several similar searches on different search engines can yield different information. I'll make sure I check several search engines on my next quest.

At the web site I found articles he had written, complete transcripts of audiotapes he sold, a "LearningBase" (it was like an encyclopedia of his work and the applications), FAQ's (frequently asked questions), and critiques of his books! I now have an entire notebook of information, perhaps as much as the actual book. With this information, I identified the exact book I wanted, where the contents were on target and it was written at my level.

So, what are my choices for purchasing the book? Amazon offered it new for $38.89 plus $3.99 shipping, with delivery in two to three weeks, or used for $31.11 plus $4.99 shipping, in two business days. www.barnesandnoble.com offered the book for $22.40 plus $3.99 shipping within 24 hours. It was not available on www.buy.com, and the actual publisher (by phone) offered the book for $32.75 plus $4.95 shipping, delivered within two to three weeks.

Another resource I stumbled upon for an out-of-print book is www.harvestbooks.com. They will continue to search for your book through over 1,000 independent book dealers for a month, with no obligation to buy. My book was still in print so they could not help me.

Immediately I wondered why Barnes & Noble's copy was available immediately and the price was so low. The cover appeared to be the same. Based on my conversation with the publisher, there was an older printing and most shops had sold out and were waiting for the publisher to print a new batch. I merely lucked out that Barnes & Noble had an old dusty copy in stock (MSRP was $28 instead of the publisher's $33) of the current edition. I was convinced that this was the right choice, and proceeded to order from www.barnesandnoble.com. They emailed me a confirmation and order number. I checked my order status several days later. I had ordered the book about 11:30 am on the 21st and it was shipped before 5pm the same day. I received the book on the 27th in early afternoon. I opened it and started reading immediately.

This was a long but rewarding experience. With a little footwork and a high-speed Internet connection I could accumulate valuable information and have a foundation to decide which book to use to further my research. No driving involved.

Now for my plan … .