Online Banking

by Pam Baumbach

Several months ago a friend suggested I write an article about Jennifer Openshaw's book **What's Your Net Worth?** Openshaw is the founder of the Women's Financial Network (www.wfn.com), Women & Money columnist for CBS Marketwatch and others. While her focus is women's financial issues, I found that the educational element of her book is useful to everyone. I jumped to the Chapter that interested me the most: "On-line Banking". It was an Internet-based topic about which I wanted to learn more, tailor-made for an article.

I have tried on-line bill paying in the past but do not use it regularly. I do have Internet access to most of my accounts that enables me to look at activity and make requests. My article is based on my personal experiences with WT (Wilmington Trust), Discover, and AT&T Universal charge card.

I can have my bank pay ANY bill, by providing the company name, its mailing address, and my account number (to ensure that the company credits your account). I can choose to have the bill paid immediately or at a date in the future, and as a one-time or recurring payment (using a set amount such as for a car or house payment). Recurring payments require some monitoring for monthly bills where the amount changes, such as phone bills.

How can a bank pay **anyone**, especially a company for which I don't have a bank routing number? Here I came to understand that **paying does not mean electronically paying**. When I request a payment, my bank checks to see if the payee is a registered electronic payee. My bank has "hundreds" of payees on **the list**, with most large and/or local banks, utilities, and other companies included.

However, if the payee is not on the list, they cut a check, and mail it to them with your account number on it, just as if you had written and mailed the check. Your account will **not** receive the money any faster but you do **save the postage**. Just the service of them writing the check can have its advantages. There are bill paying services you can pay for or your bank may offer the service **free**.

My bank does not charge me for the service; this leads me to question what it is really costing me. The lesson is to **note the float**. When you instruct the bank to pay a bill, the money comes out of your account immediately. If the company is on my bank's list, then they are paid electronically, and the float may be two business days or less. If, however the company is not on the list, and a check is cut, then my bank states that the float can be as much as **seven business days**. When you are paying a credit card bill, the float is even more interesting.

For credit card accounts, it makes a difference **who initiates an on-line payment**. I could either ask my bank to pay the credit card company, or ask my credit card company to go to my bank and get paid. The key here is that the **float can work for you**. Credit card companies stop the clock when they receive payment, or the promise of payment, from you. If you run a balance, instructing the credit card company to pull money from your bank will stop the clock quickest, and may give some float to you. Theoretically you can have the money in two places for a short period of time. This can become significant if you carry a credit card balance, the payment is substantial, you are close to the due date, or you resent float working against you and want to get even a little bit.

On-line banking is not as great as I initially thought. I will be very careful of **how** I pay my bills, maximizing my benefits and my control. I now feel I know the motivation of the banks in offering the services – it is **not** too good to be true and they **are** compensated. As always I resent the lack of full disclosure. If you are considering on-line bill paying, I hope the information has been helpful.

As for Jennifer Openshaw's book, I have continued reading it and expect that it will become a reference I return to periodically. I highly recommend it for everyone, especially women.

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they can take. There are not. You can probably read all the good ones in a few months. In my opinion, the best place to start is John T. Reed's website which provides a suggested sequence of reading his books (and also recommends other authors). Reed has been recommended by Jane Bryant Quinn – a very good referral source. Others include the writings of William Nickerson, John Beck, and Bob Bruss.

5. **Do It!**

   After studying intensely for about six months, do it (with your spouse or partner on board). Do not study real estate endlessly. Also, do not own real estate with anyone other than your spouse or partner. There is just too much potential to go wrong.

6. **Do Not Draw Broad Conclusions From Early Results**

   You will probably have initial success or failure. Do not jump to any big conclusions based on the first five years. In these shorter periods, you don't see enough of both the ups and downs. The real estate world is full of people who have had a bad experience at the start of their real estate investment careers and drew the erroneous conclusion that you cannot make money in real estate. It is also full of people who came in at a good time and drew the conclusion that making money in real estate is easy.

Real estate is a vast field with many exciting opportunities to achieve extraordinary financial goals. Like any other business, success in real estate investing takes diligence, persistence, and luck and cannot be achieved by simply attending a seminar.

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The Mallard Message

Mallard Advisors, LLC Paul S. Baumbach, CFA, ChFC Manager, Wealth Management 302-737-4546

Inside This Issue

Frequently Asked Questions

1. **How is the 'Merger' going?** We continue to make progress with the new company. Bill and I held a joint seminar on TIAA-CREF retirement plans in November at the University of Delaware. Pam led the effort to 'convert' the Mallard Asset client accounts and contracts to Mallard Advisors, an administrative nightmare. In this newsletter there are articles from all three of us. I am very pleased with each of these milestones.
2. **Are you still seeking new clients?** Yes. We appreciate it when you share your experiences with others. In this manner you are helping your friends by letting them know about a local firm dedicated to providing them with the best financial advice on a Fee-Only™ basis. You are also helping yourself, by reducing the time we need to devote to spreading the word about Mallard, and thus enabling us to spend more time on your financial needs.
3. **Where can I learn more about Mallard?** The Mallard website is www.mallardadvisors.com. If someone asks you for information on Mallard, please don't hesitate to refer them to the website, or suggest that they call us at (302) 737-4546. **The current disclosure document, Form ADV, and the Mallard Privacy Policy are posted on the website.**

Winter Plans

I have a meeting in Chicago on January 31st, and may attend a TD Waterhouse conference in Los Angeles the following week (through February 9th). I haven't yet decided on the California conference. Otherwise, I should be in the office.

Whenever I expect to be away from the office for more than one business day, I send an email to clients. While I am away from the office, I check my phone and email messages and return all urgent ones.

Conference Report

In November Paul and Bill attended the 2002 NAPFA Northeast Regional Conference in Baltimore. Highlights for Paul included Professor Jeremy Siegel from Wharton, tax expert Ed Slott, Morningstar founder Don Phillips, and financial publicist Knight Kiplinger. Both Bill and Paul continue to work on the 2003 conference, to be held in Philadelphia.

Mountain to Climb?

by Paul Baumbach

This year financial conferences have included speakers addressing when the markets will turn around, and how steep the mountain ahead of us is. Wharton profession Dr. Jeremy Siegel spoke at the conference I attended in November. In addition to the fame of his 1994 book **Stocks for the Long Run** (with the 3rd edition released this past summer), he is also noted for his March 2000 editorial in the Wall Street Journal "Big-Cap Tech Stocks Are a Sucker Bet". His November presentation was called "Are Stocks Still Right for the Long Run?"

Siegel is very cautious about future bond returns. He expects that inflation will rise to 3% or more, and that this will combine to **make bonds lose money over the next decade**, after taxes and after inflation. This is yet another justification for proper asset allocation, and for considering some alternatives to traditional bond investing approaches.

On stocks, however, Jeremy Siegel is a staunch long-term bull. To be a bull, you must be comfortable that the market is not over-valued (as measured by PE ratios, the Price investors are willing to pay for $1 of Earnings). He feels that we are unlikely to suffer another depression or episode of spiraling inflation, and believes that this, along with other factors, support **permanently higher valuations**. In response to concerns that we have never had such a bad market, he notes that if you carve out technology stocks, the past bull and bear markets are normal.

While he likes stocks' prospects, he does note that they could use some help. He points to steps that the government and companies can take to improve investors' lives. Specifically he suggests that the government eliminate the double-taxation of dividends, and that companies boost their dividends. The Republican Congress is expected to take up the taxation issue in 2003.

This brings me to an interesting story Siegel shared. He was asked 'what if it takes us ten years to get back'. Given that we have suffered a 2 1/2 year bear market, this means that we would have been treading water for 12 1/2 years! As the major market indices have fallen about 50% from their peaks, this would require them to double (a 50% decline requires a 100% gain to get back to where it started). This appears quite a daunting task!

Whether it is a stock or a stock market, an investment needs to rise 7% a year to double in a decade. When the current 2% dividend yield is added, Siegel notes that if the markets take ten years to recover, we would have been earning a 9% average annual total return from stocks over the next decade. Compared with the alternatives, such as his expectations for negative after-tax, after-inflation returns from bonds, this scenario is not too scary!

[Am I the only one who worries that advisors go to conferences just so they can hear some national speaker make a presentation confirming the advisor's initial views, and ignoring the speakers who hold opposing views?] To find out more about where I see the market heading, read my quarterly Market Review and Market Outlook. The Review looks at the just-completed calendar quarter, reviewing the high and low points. The Outlook includes observations on the themes and strategies that I am using looking forward. I post this on the Mallard website, typically by the 15th of the first month of each quarter, and mail a paper copy to each client with their quarterly report.

Top Holdings

In this section I review top holdings for client accounts (greater than $100,000 when consolidated), and purchases or sales of $50,000 or more for the past three months. The data for this report comes from the December 15, 2002 positions and for transactions during the preceding three months. Transactions during this time were motivated by continued tax loss harvesting, and investment programs to bring portfolios towards their long-term allocation targets.

Mutual Funds—Artisan International, Artisan Mid Cap, Columbia High Yield, Dodge & Cox Stock, Fidelity Diversified Int'l, Fidelity Long-Term Income, Fremont Bond, the Merger Fund, **PBHG IRA Capital Preservation** (new), Royce Low Priced Stock, two TIAA/CREF subaccounts, two Vanguard stock index funds, two Vanguard bond funds, and William Blair Int'l Growth are all large holdings. I added over $600,000 to the newly discovered PBHG IRA Capital Preservation fund, a GIC-like mutual fund that provides level positive returns, and sold all of my inflation-protected TIPS and most of the TIPS funds, along with some Fremont Bond, and a large portion of my Vanguard intermediate-term and long-term bond funds. I increased my use of mid-cap Ariel Appreciation and large-cap value fund Dodge & Cox Stock, along with First Eagle SoGen Overseas, and the Vanguard variable annuity international fund.

Specialized Funds—No closed-end funds are held at $100,000 or more. S&P 500 SPDR and S&P Midcap 400 are the top exchange-traded fund holdings. I increased my use of the S&P 500 SPDRs (generally swapping from the Russell 1000 iShares fund), and reduced my use of the MSCI EAFE fund (generally swapping into open-end non-US stock mutual funds).

Bonds—A 3-month CD matured, a very short-term muni-bond matured, and I sold all three of my individual TIPS (Treasury Inflation Protected Securities). Over $180,000 of a six-month CD is held in client accounts.

Stocks—No individual stocks are held at $100,000 or more. Three (GE, ExxonMobil, and Pfizer) are held at $50,000 or more. I reduced GE during these three months, capturing a tax loss.

Real Estate Investing

by Bill Starnes

I have received many inquiries from new and current clients about real estate investing. Therefore, I want to share with all of you some steps, tips, and things to avoid in starting your involvement with real estate. The following observations come from my experience as an advisor, a formerly licensed real estate agent, and from the writings of John T. Reed.

Your "Castle"

Start your real estate portfolio with a personal residence, as it is one of the only investments that provide financial and personal benefits. The financial benefits include leverage, deductions of interest and property taxes, large tax-free gains at sale, appreciation beyond inflation, and a forced savings. The personal benefits are enjoyment of the space (turning a house into a home) and control over the property (being the king or queen).

When it comes to a personal residence, buy the most house you can reasonably afford – the greater the value of your house the more dramatic the appreciation, the better the neighborhood, and the stronger the school district. A simple rule of thumb is to purchase a residence that is 2 to 2 1/2 times your income. For example, if you own a home worth $225,000 and you earn $100,000 the home is 2 1/4 times income – within this guideline. It can then be kept until your income equals approximately the market value of your home – then trade up.

Dabbling

Once you have the best house you can afford, you can "dabble" in other real estate. However, first consider some guidelines. Don't allow your total real estate holdings to comprise more than 40% of your total marketable assets (unless you are a real estate professional or a young first time home buyer). Dabbling could include purchasing the building your professional office is in - if you are self-employed. It could also be as simple as keeping your starter home as a rental when you "trade-up" to more valuable real estate.

Dabbling should not include the purchase of vacant land, vacation homes, or time-shares! There are exceptions to these purchases such as if you bought your time-share at a stunning discount from the naïve purchaser who bought it from the developer. I personally like to rent the vacation homes that should not have been purchased by the other guy.

Professional Real Estate Investing

When you go beyond dabbling, you are moving into the realm of a professional real estate investor - an altogether far more serious proposition that cannot be implemented simply by buying a real estate program off late night TV. These programs and becoming a professional real estate investor are what I have been hearing about most recently.

1. **Are You Really Sure You Want To Do This?**

   A real-estate-investment program will consume large amounts of your time, subject you to financial risk, and force you to engage in the generally unpleasant task of dealing with tenants. A lot of people (including myself) like the abstract idea of being a real-estate investor, but if they became one, would not like doing what real-estate investors do. If you do not know what it's really like, you'd better find out before you start down this road.

   A must-read is John T. Reed's **How to Get Started in Real Estate Investment**. It definitely presents the reality of investment real estate, as opposed to the fantasy world described by the vast majority of real estate gurus such as Carleton Sheets and Robert Kiyosaki (i.e., "Rich Dad"). I have many of John's books and I have Kiyosaki's real estate program titled "Six Steps to Becoming a Successful Real Estate Investor". You are welcome to borrow both of these from me to see the difference between reality and fantasy.

   You can next start by taking a real estate course (I took one at Del Tech), and then, if still motivated, by getting a job as a property manager or a real estate agent.

2. **Are You Suited To Being A Landlord?**

   Many people are fundamentally unsuited to deal with tenants and employees. To be a landlord, you must be able to stand nose-to-nose with a fellow adult and tell them "No," they cannot have what they are demanding. For landlords who cannot do that, rental properties are a disaster. Ideally, you should also have some basic home improvement skills.

3. **If You Still Want To Do This, Set Specific Goals**

   If, after following the advice described above, you still want to invest in real estate, you need specific, but realistic goals. This includes choosing a niche, and setting some acquisition, net worth, and loan-to-value-ratio goals.

4. **Start Studying Real Estate Investment**

   Once you have made an informed decision that you really want to invest in real estate in order to achieve sensible financial goals, it's time to narrow your focus and to study the details of the real estate niche you choose. Most beginners seem to assume that there are thousands of dollars of worthwhile books and courses

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