The Mallard Flyer

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January 2005

Notices

Paul's Schedule:
Paul and Pam are not scheduled to be out of the office during the first quarter of 2005.

Bill's Schedule:
Bill will be out of the office Monday, January 17th. Sherry is not scheduled to be out of the office during the first quarter of 2005.

Inclement Weather:
In the event of inclement weather on a day of a scheduled appointment, we will contact you to confirm or reschedule.

Next Newsletter:
The next edition of *The Mallard Flyer* is scheduled to be mailed in early April.

Annual Goal Setting

William D. Starnes

I have spent a lot of time with clients over the years discussing their financial goals, hopes, and dreams. Typical goals include:

- The ability to maintain current lifestyle without having to work
- Providing the best education for children
- Starting a business
- Buying a new home
- Increasing income

Regardless of the specific goals, there is one common element that all of us desire when it comes to our goals – choices. We want to be able to choose to retire earlier if we wanted to. We want to be able to choose to start a business, if possible. We want to be able to choose the type of school our children go to. The bottom line, regardless of the specific goals, is that we all want the ability to make choices, to change plans, and to pursue a variety of objectives. So, how you do you increase your ability to choose? By planning and setting goals each year.

Renewing Goals
One of the most important lessons I have learned about goal setting is that goals must be continually renewed. Many times I hear goals such as: a good job, a nice home, more travel, or more money. The biggest problem with these types of goals is that the goal setter assumes that achievement of the goal will result in a "happy ending". Saying that a "good job" is your

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Announcements

New Year, New Employee
On January 1st Paul's Wealth Management Division expanded with the addition of full-time Wealth Manager **Mark Shryock** (pronounced Shrock). Mark will be busy in the first few months with learning the 'Mallard Method', and in studying toward the third CFA exam this spring. Paul is excited that Mark will enable Mallard to provide its high quality, high-touch comprehensive wealth management to our growing client base.

Aim High and Reach It
In late 2004 Pam Baumbach sat for and passed the Accredited Asset Management Specialist exam. Ask her for a new business card! Pam has significantly raised the level of services and support that she offers our clients and our wealth managers. Great job!

New Brochure
The financial planning division has created a new informational brochure. It is available upon request or viewable at www.mallardadvisors.com.

goal implies that a job exists out there with just the right conditions to result in life-long happiness. No achievement results in life-long happiness. I can think about almost any goal I have set for myself, and once achieved no longer holds the same satisfaction. Goals are not end products, but tools to keep us moving, motivated, and feeling useful. Adam Smith said in *The Money Game*, a book about what motivates people to invest, "No specific goal can sustain one for very long after it is achieved." Instead, it is the goal setting process and achievement that sustains us.
We want to maximize our available choices and it is the setting and achieving of annual goals that maximizes our choices in life.

SMART
When doing your annual goal setting, think of the acronym SMART. SMART describes five important characteristics of a meaningful goal and include (in its most common use):

S - Specific
M - Measurable
A - Attainable
R - Relevant
T – Time Based

A **specific** goal is more likely to be accomplished. For example, a more specific goal than "I want to be a millionaire" would be, "I will obtain a net worth of $1 million by my age 50 by saving aggressively". Specific goals also have the added benefit of clarifying the goal in your mind. You must then establish a system to **measure** your progress towards your goal. A system to measure progress ensures you pay attention to the goal. In the above example, use of the Net Worth Tracker in your Personal Financial Tracker would do the trick.

Goals should also **be attainable**, not pipe-dreams. Make sure your goal is one that you are actually *likely* to achieve. Your goal is probably attainable if you truly *believe* that it can be accomplished. Because goal setting and attainment is done over time, and in steps, it is best to keep your annual goals attainable and your longer-term goals more aggressive. One often overlooked point in goal setting is that the higher the goal, the more energy and time that it will require. For example, working harder to make your net worth goal higher diminishes the amount of time you can spend on other pursuits. Set your goals aggressively, but recognize that there is a cost.

Relevant goals are goals that are congruent and prioritized within your value system. In other words, they are goals that move you closer to the things that are truly important to you. This is why taking the time to reflect upon what it is you really want is so important. For example, after considering that your top goal is more time with your family, you may elect to lower your net worth goal. Goals aligned with your values are far more likely to be achieved and will make you feel much better in the process.

Time-based goals have a timetable for completion. Very simply, you need to give yourself a deadline. Without a deadline there is no sense of urgency or reason to take any immediate action. Having a specific time frame gives you the impetus to get started. It also helps you monitor your progress.

Annual Family Goal Setting
So how do you "execute" the goal setting process? There are many methods including software programs, visualization techniques, and writing them down across time frames (micro-goals, short-term goals, long-term goals) and categories (physical, financial, educational, etc).

One technique that has worked well for my family has been to schedule an annual night of goal setting. In the past we have done this on New Year's Eve. On that night, we took a large piece of poster board and divided it up into several categories including health, finances, vocational, educational, spiritual, recreation, charity, etc. Next we began brainstorming our top goals for each category over the next year. Once we refined our goals, we cut out pictures from magazines, the internet, etc. and pasted them on the poster board. This helped with clarifying the goals in our mind's eye.

For 2005, take the time to set SMART goals. You will keep moving, motivated, and feeling useful, while maximizing your future options.

Bill Starnes is the managing partner of Mallard Advisors' Financial Planning Division

Confessions of a Reformed Floater

Pamela S. Baumbach

I was a convenience floater. I managed my personal finances, mostly deposits, to fit trips to the bank comfortably into my busy schedule. I liked to mail my checks for payments and allowed myself two days or so to get the deposit in to cover it. However, when the new **Check Clearing for the 21st Century Act** (**Check 21**) became effective on October 28, 2004, my days of leisure banking were over. The risks and costs became too high.

Check 21 makes it possible for your paper check to be converted to a **substitute** check, with all the legal power of the original, and the original can be destroyed. Before Check 21, a check passes through five hands: the payer's, the payee's, the payee's bank's, a bank processing clearinghouse, and the payer's bank. Only then is the check amount deducted from the payer's account. The time associated with physical travel and processing at both banks is what created the float. The delay during this physical travel became particularly lengthy during the 9/11 tragedy, when planes were grounded for days. **Check 21** now allows any entity that handles the check to convert it to a substitute copy and to forward only the substitute (electronically) to the next step. The middle step, the bank processing clearinghouse, can be eliminated when the check is in substitute form early in the process.

This is not the only way Check 21 affects the consumer. It will be less common for banks to return original checks to their customers; increasingly it won't even be possible (remember that the original may be destroyed after the electronic substitute is made).

Check 21 does provide some protections for the consumer. If you receive a **substitute** check and there is a problem with it (i.e. presented twice, paid wrong amount), the bank must re-credit your account within ten business days, regardless of how long it takes to ultimately resolve the issue. Your re-credit is limited to lesser of $2,500 or the amount of the check. If the mistake is for more than $2,500, the bank is not required to refund the excess until the issue is finally resolved.

The reduction of the float is not reciprocal. The **Expedited Funds Availability Act** sets the maximum holding period for deposits allowable to the bank; this was not reduced by Check 21. If and when the average speed of processing a check is significantly reduced, **the Federal Reserve Board may reduce the holding period for deposits, but has not yet done so**.

Your bank is not required to accept substitute checks in electronic form. However, in order to stay competitive, it is expected that within a few years all banks will accept substitute checks to cut their costs.

While this research dramatically increased my understanding of the Check 21 Act, it left me with **several questions and concerns.** When mistakes are made, ten days can be a long time. Will mistakes and will fraud be more common, and harder to prove? Will bank fees rise sharply for consumers who do not obsess over their bank statements (and for non-reformed floaters)?

As I consider how Check 21 will affect my future, I remind myself that as the consumer I have responsibilities. I should always read my bank literature before using the banks services since it is a **legal contract** between the bank and me. Also, I should be diligent in reviewing my account information. Due to Check 21, **I will examine my statements much more quickly.** I am the first line of defense in detecting mistakes or fraud in my account; the bank won't know if I don't tell it. Most importantly, I will work to **resist the temptation of "The Float".**

Pam Baumbach is the Client Services Manager of Mallard Advisors' Wealth Management Division

New Year Predictions

Paul S. Baumbach

Where have we been, where are we going, and what should I do about it? The start of a New Year is a natural time to reflect upon the markets, and to identify a strategy to use in the coming year.

It's the Economy—The markets are tied to the economy. The stock market is considered a leading indicator of the economy, and US stocks' steady increase since late October implies that **the US economy will continue to recover through 2005**.

Any Interest?—As long as the US economy is growing, and given the very low level of interest rates currently, we can expect the Fed to continue to gradually raise interest rates in 2005. The interest rate increase in 2005 is not expected to be uniform—rates are expected to rise more for short-term bonds than long-term ones. **While very short term (such as money market) rates could rise by close to 1½% during 2005, medium term and long-term rates are expected to rise by only 1% or so.** This is very similar to expectations for 2004.

Inflation Outlook—In 2004 inflation surged from the 2% we had experienced for the past few years up to 3½%, largely due to the 30% rise in the price of oil. Most economists expect inflation to cool down a bit, to 2.5% in 2005.

My Best Guess—I expect money markets to return 2½%, bonds to return less than 1%, large US stocks to rise 4 to 6%, and for smaller US stocks and for foreign stocks to rise 6 to 8%. That said, I don't put much confidence in anyone's one-year predictions, even my own!

The reason for my lack of confidence is that **in the short term, emotions trump reason**. Stocks were overpriced at the end of 1998. In the four preceding years, the NASDAQ index had risen 190%. Any reasonable person would say that they were overpriced and should fall in 1999. In 1999 they rose a further 85%. Why? Herd mentality.

Herd Risk—Despite regular lessons to the contrary, investors often follow their gut and plow money into last year's winners. Initially this is self-confirming, as new money pushes up prices. In time, however, reason returns (the NASDAQ fell 67% from 2000 through 2002). In 2005 the herd effect could whipsaw small caps and foreign stock funds given their strength in 2004.

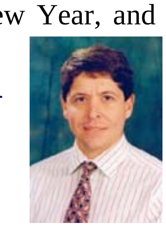
Best Approach—I prefer the boring, steady approach, which would be easy if it wasn't so hard. **Write down your plan and stick to it.** [Warning—obscure literary reference on the horizon] It requires ignoring the constant siren's cries of CNBC, financial pages of newspapers and magazines, and even Lou Dobbs and Louis Rukheyser. The financial media is dependent upon the advertisements of financial institutions that rely on your investment transactions, **not** on your investment success.

I predict that 2005 will be like 2004, and 2003, meeting expectations in some areas and surprising in others. A patient, disciplined investor, however, does not require accurate and impossible predictions. Rather they require patience, and discipline.

There are times when you should **deliberately stray from your written goals**, when investments are priced wrong. When everyone was willing to buy Yahoo, regardless of the price, the price became wrong (too high). When no one wanted to buy any stocks (mid-2003), and the S&P 500 fell below 800, the price also became wrong (too low). At these times, your plan should call for **an intentional detour**.

So Now What?—As 2005 begins, the most obvious need for a detour relates to long-term bonds. Thirty-year Treasury bonds pay only 1.125% a year more than 10-year treasuries. I consider this 'spread' to be too small to justify the substantial risk of price declines in long-term bonds. In this environment, I favor shorter-term bonds and more advanced bond strategies (including floating-rate, high-yield, and international bonds).

I predict that 2005 will be like 2004, and 2003, meeting expectations in some areas and surprising in others. A patient, disciplined investor, however, does not require accurate and impossible predictions. Rather they require patience, and discipline. Happy New Year, and beware the sirens' song!



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