



MALLARD

ADVISORS, LLC

THE MALLARD FLYER

PAUL S. BAUMBACH – MANAGING PARTNER – WEALTH MANAGEMENT DIVISION
WILLIAM D. STARNES – MANAGING PARTNER – FINANCIAL PLANNING DIVISION

273 EAST MAIN STREET, SUITE E, NEWARK, DE 19711-7331
(PH) 302-737-4546 · (FAX) 302-397-2675
WWW.MALLARDADVISORS.COM · INFO@MALLARDADVISORS.COM

Inside This Issue

April 2005

The View From Omaha	1
Paul's Worldly Travels	2
Execute Your Living Will Today	3
New Car Fever...Bringing Your Temperature Down	4-3

Notices

Paul's Schedule:

As mentioned on page 2, Paul will be in Belize from June 18th to July 4th.

Bill's Schedule:

Bill will be out of the office the week of May 16th attending the National Association of Personal Financial Advisors' National Conference in Tampa, FL.

Next Newsletter:

The next edition of *The Mallard Flyer* is scheduled to be mailed in early July.

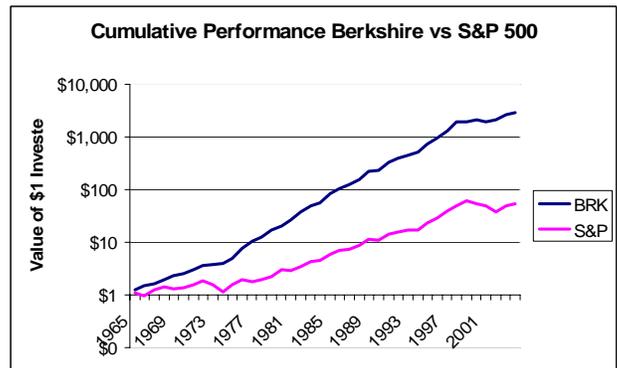
The View From Omaha

Paul S. Baumbach

I used to be a computer nerd/geek. Now I am an investing nerd/geek. Since 1997 I have reviewed the annual report from Berkshire Hathaway (based in Omaha, Nebraska), which is written by legendary investor **Warren Buffett**. I do this because Buffett has two amazing strengths: he is a tremendously gifted investor, and he is incredibly skilled at explaining investing to others. In the past 40 years he has led Berkshire to more **than double the results of the S&P 500** (23% annually versus 11%), despite lagging the S&P in the past two years. All of the quotes from this article come from the Chairman's Letter in the 2004 Berkshire Hathaway Annual Report. Where practical, I identify a few 'keepers', and pass them on.

Buffett Nuggets—He discusses Berkshire's NetJets and FlightSafety companies' emphasis on safety and service. 'I viewed the selection of a flight provider as akin to picking a brain surgeon: you simply want the best. (Let someone else experiment with the low bidder.)'

Later Buffett points out that 'Investors should understand that in all types of financial institutions, rapid growth sometimes masks major underlying problems (and occasionally fraud).'



Trade Deficit—Buffett warns about our continued, and growing trade deficit. As a result he sees us, despite aspirations to becoming an "Ownership Society", closing in on being a "Sharecropper's Society", where Americans are increasingly working for non-Americans. This can take the form of US firms being

Continued On Page 2

Mallard Announcements

On Tuesday, June 7th, we will present a session on **Tax Smart Investing** from 6:30 to 8:30 pm at the Unitarian Universalist Fellowship of Newark (UUFN) near the West Park Elementary School. If you are interested in attending this free seminar, please email or call the office and we will register you. This course is co-sponsored by the Delaware Money School, on whose board Bill serves.

Bill was interviewed and quoted in the March 2005 issue of *Financial Advisor*. Bill appeared in the cover article titled, "Time Money: Do you understand all the assumptions you are making regarding clients' withdrawal rates?" A copy of the article can be found on our website.

Paul was interviewed and quoted in the March 21, 2005 edition of *The News Journal*. The article was on SRI, Socially Responsible Investing. He offered pointers before selecting an SRI mutual fund. A copy of the article can be found on our website.

The View From Omaha...Continued From Page 1

bought by foreign ones and in the increasing amount of our taxes that are needed simply to pay interest to foreign holders of US debt.

Buffett hopes that our government very quickly develops a **coherent trade policy**, one that aims to boost consumption of US goods by other countries, and reduce consumption of foreign goods by the US. He recommends the US edition of *The Financial Times* for superior coverage of trade issues.

Foreign Currencies—In the past three years, Berkshire has begun trading in currencies. He shares these thoughts: ‘the evidence grows that **our trade policies will put unremitting pressure on the dollar for many years to come**’, ‘In no way does our thinking about currencies rest on doubts about America.’, and finally ‘our country’s trade practices are weighing down the dollar. The decline in its value has already been substantial, but is nevertheless likely to continue.’

Buffett acknowledges ‘We may well turn out to be wrong in our currency judgments. (Indeed, the fact that so many pundits now predict weakness for the dollar makes us uneasy.)’ However he notes ‘we believe in managing Berkshire as if we owned 100% of it ourselves. And, were that the case, we would not be following a dollar-only policy.’

Market Improvements—Buffett notes two ‘post-bubble governance reforms that have been particularly useful at Berkshire.’ The first are regular meetings of directors without the CEO present, and the second relates to the “whistleblower line” that employees may use to contact the audit committee without

fear of reprisal.

As backlash from the Enron debacle, many reforms were proposed, and several were enacted. It is good to hear that some direct benefits have resulted from Enron.

Optional Advice—Warren Buffett strongly opposes restrictions to the use of stock options. What he strongly supports, however, is the immediate expensing of stock options. Expensing options removes ‘the most important accounting mechanism still available to CEOs who wish to overstate earnings’. Fortunately for investors, expensing is set to become mandatory in mid-June. Keep an eye out for last-minute lobbying that opposes this deadline.

The Buffett Book Club—Last year Buffett shared four book picks: [Bull!](#), [The Smartest Guys in the Room](#), [In An Uncertain World](#), and [The Intelligent Investor](#). I read the first two, which described the bubble and its bust, and the Enron bubble and bust, and I agree that they are very readable and interesting. I hear that the Enron book (Smartest Guys) is being made into a movie. I am hopeful that I will be able to get to one or both of the other two books in the next year.

Closing Comments—Buffett closes by noting that Charlie (his second in command) and himself ‘are lucky. We have jobs that we love and are helped every day in a myriad of ways by talented and cheerful associates. No wonder we tap-dance to work.’

Paul Baumbach is the managing partner of Mallard Advisors’ Wealth Management Division



Paul’s Worldly Travels

Paul S. Baumbach

Paul’s “Vacation” Plans

I will be joining my son Mike for a ‘mission trip’ to Belize organized by our church, and by the Peacework™ organization. The team of about eighteen will be improving a school building in the country that used to be called British Honduras, located between Mexico and Guatemala.

We will be leaving on Saturday, June 18th and returning on July 4th. The rest of the Wealth Management staff will strive to meet your needs during my absence, including checking my emails daily. As the project is in the Maya mountains, it is unlikely that I will be reachable during these sixteen days. I am more worried about technology withdrawal than the mosquitoes!

About two years ago I chaperoned a school trip with Mike to Puerto Rico. I expect this to be an even more wonder-

ful experience. I am very excited about this opportunity, to serve this Mayan community, to join my son in this odyssey while Mike is still in high school, and to practice my pigeon-Spanish (thank goodness Mike has been studying it for years).

Floating Conference

In late February I attended the NAPFA Advanced Planners Conference, on a cruise ship. In between visits to Key West, Cozumel, and Ft. Lauderdale, I was able to enjoy education sessions on Demographics, Energy Policy, Emigrating from and Immigrating to the US, Fixed Income Investing in a Rising Rate Environment, and Emerging Markets. While I certainly enjoyed the relaxing environment (ask me about being stopped by the Policia), the sessions were top-notch and wonderfully informal as there were only thirty or so advisors who attended.

There has been a lot of talk and press about living wills lately. One thing everyone can agree on is that making our wishes known before it is too late is a very good idea.

A living will is a written expression of your wishes concerning life-sustaining procedures in the event you become permanently incapacitated or unconscious. A living will is your way of telling your loved ones and medical professionals what types of artificial life-support you desire or wish to forego. This would include feeding tubes for nutrition, hydration, mechanical respiration and the like. These are especially important if your wish is to forego life-sustaining measures since this presents a conflict with the medical practitioners duty to preserve life whenever possible.

Ideally, your attorney would execute your living will as part of preparing all of your estate planning documents. However, if you want to update your living will quickly, the Partnership For Caring provides State approved documents available at no cost from their website www.partnershipforcaring.org.

New Car Fever...Continued From Back Page

I have guides to reliability and re-sale value if you are interested.

Should I Buy or Lease?

From purely a financial standpoint it never makes sense to lease a vehicle. Leases are attractive due to the much lower monthly payments versus buying the same vehicle. However, monthly payment amounts and actual ownership costs are not the same thing and a low monthly payment can easily lead to purchasing more vehicle than you can afford.

There are two or three cases where I would recommend leasing a vehicle. The first case is when you are financially independent and can afford to lease. Here it is simply a matter of priorities. The second case is when you are going to replace the vehicle in as short as three years regardless of buying or leasing. If so, don't bother buying as you will lose more on depreciation, low price on your trade-in, and sales costs. The third case where leasing makes sense is to avoid reliability issues associated with a used or older car. This can provide tremendous piece of mind for older individuals or single people.

Do You Have Any Car Buying Tips?

Once you have determined what you can afford in terms

of total purchase price, then it is in your interest to own a vehicle that provides the best overall value in that price range. *Consumer Reports* magazine does an excellent job of evaluating the reliability and features of automobiles. Each April *Consumer Reports* delivers its Annual Auto Issue which can be found in any library.

If you are buying used, obtain a carfax report. This report details the history of the vehicle and will either provide you with more negotiating leverage or help you avoid potential problems. Go to www.carfax.com.



Consider hiring a car buying consultant. For a fee the consultant will assist you with the buying process, avoiding most of the anxiety resulting from negotiation, etc. They may also help you

obtain a lower purchase price than you could obtain on your own.

For some a car is a tool to get from point A to point B. For others, it is a lifestyle statement. Either way, consider some of the above guidelines for your next purchase.

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



For some of us there is nothing like the smell and excitement of buying a new car. It can be so intoxicating as to cause your heart to race and palms to sweat. It is this very sweat that can actually short-circuit our brains from functioning during the car buying process (similar but more extreme symptoms occur during contract negotiations for a home and falling in love).

Therefore, I would like to discuss some hints as to how to bring your new car fever down.

How Much Should I Spend?

Can everyone afford a \$25,000-\$30,000 vehicle regardless of income or assets? I don't know why, but regardless of income, I see people (clients and non-clients) with similar costing automobiles. How much you spend should be in relation to your income and assets. The financial impact over a lifetime is huge depending on how much you spend on your vehicles, how long you own them, and if you invest the difference between the higher and lower payment. According to the Bureau of Labor Statistics, Americans spend more of their disposable income on automobiles than on anything else except shelter. 18% of our expenditures are on vehicles, whereas only 8% is paid into pensions and Social Security.

As a rule of thumb, most people should spend between 20%-40% of their gross income on the purchase price of a new vehicle with the percentage moving up from 20% towards 40% depending on how much of the purchase price is financed. Therefore, a new college graduate earning \$40,000, financing the entire amount of the purchase price, should try to spend no more than \$8,000. A single 40 year old earning \$120,000, putting half the cost down in cash, could reasonably spend \$36,000 for a vehicle. Like all rules of thumb, these guidelines should be taken with a grain of salt as affordability really needs to be determined in light of your family's overall financial situation, and your own priorities. For example, if you are spending \$60,000 each year on your "lifestyle expenses" and because you value automobiles, decide to spend a higher percentage of the \$60,000 on your vehicles, and a lesser percentage on vacations without increasing your overall spending,

As a rule of thumb, most people should spend between 20%-40% of their gross income on the purchase price of a new vehicle.

then obviously that is fine.

How Should I Finance The Purchase?

Financing any purchase (including an automobile) is acceptable if it meets the following two-part criteria for "good debt":

1. What is being financed must last longer than the debt period
2. Financing it should provide "positive financial leverage"

For example, if you finance your automobile for three years, the asset should last and be held for more than three years. This is why financing a vacation on a credit card is never a good idea. The payments continue long after the tan has faded. Second, an automobile does provide positive financial leverage in that you can now travel to work, improve your job options, and thereby increase your potential earnings. Notice, however, that you get no additional financial leverage in purchasing a Lexus versus a Toyota.

If you do finance, you want to evaluate your financing options using after-tax interest rates.

Should I Buy New Or Used?

It is how much you spend that is important and not if the automobile is new or used. However, buying used will either allow you to buy more car than you could if you were buying new, or allow you to buy essentially the same vehicle at a substantial discount.

Which would you rather have, a brand new \$25,000 car or the same vehicle a year older and \$6,250 to invest? The average \$25,000 vehicle depreciates by \$6,250 (25%) in one year and up to 50% in three years. In today's automobile market it is relatively easy to find a very good reliable vehicle selling at a substantial discount from its original price.

If you do buy new, focus on good re-sale value in order to maximize your investment. If you buy used, you want to buy the most reliable vehicle with the worst re-sale value. This provides you with the best vehicle at the largest depreciation discount.

Continued On Page 3