The Mallard Message

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Frequently Asked Questions

During meetings and phone conversations with prospective clients, I have been asked a wide range of questions. I will share a few here:

1. **Why is there a range of annual fees?** The percentage of assets rate ranges from 0.6% to 0.9%. Some portfolios are more challenging to manage than others. Specifically, portfolios which generally use mutual funds and individual bonds do not require as much effort as ones with many individual stocks. Additionally, as portfolios increase in size, the work required does not increase proportionately; a one million dollar portfolio does not require four times the effort of a $250,000 one. The range permits me latitude in setting the appropriate charge for the specific portfolio.

2. **Does Mallard have a minimum account size?** There is not a strict minimum account size. However, as the minimum quarterly fee is $250 and the annual fees range from 0.6% to 0.9%, Mallard is not as cost-effective for stock portfolios of less than $100,000, nor for mutual fund/bond portfolios of less than $150,000.

3. **Is Mallard seeking new clients?** YES. If you know of someone who might benefit from Mallard's services, I would be pleased to take you and your friend out to lunch, to get acquainted.

4. **Aren't you nervous starting an investment firm with the US markets so high?** A bit. I would be more concerned if I was a 'typical money manager'. These firms often focus exclusively on one investment segment, such as large US stocks, or small US stocks. I am less concerned with the US stock markets since I work to fully explain the range of likely returns, in light of the unique circumstances of each portfolio entrusted to Mallard.

5. **Do I need to place my entire portfolio under Mallard's supervision?** NO. You decide for which assets you seek professional management. This could be for a rollover from an employer's plan, a recent inheritance, your non-IRA accounts, … . If you are sending a portion of your overall assets, however, I will be asking for a clear understanding of the role of this piece within the larger picture. This is critical in order to properly manage your assets.

6. **When will you begin working full-time on Mallard?** As of May 1st, I will be working exclusively for Mallard. After preparing for more than six months, I am very excited about this news.

7. **Why Mallard?** This is the most common question. The answer is in two parts. As a child, we had pet mallard ducks (rather than a cat or dog). While reading a CFA article last year, I came upon a comparison of a good money manager to a duck crossing a pond. While it appears to cross the pond calmly and effortlessly, its feet are paddling furiously. I see my role as working hard in the background to help you achieve your portfolio goals, eliminating this worry from your life.

Inside This Issue

Welcome

This is the inaugural issue of Mallard Asset Management's quarterly newsletter. It will contain information on investments, portfolio management, the economy, the markets, and Mallard Asset Management itself.

Mallard was formed in 1996. Working two days a week, I filed forms with various government agencies (including the SEC), evaluated, purchased, and learned several software packages, and registered with three investment firms: Schwab, Vanguard, and Waterhouse Securities. I also worked with Richard May to introduce Mallard to a dozen clients of RKM Advisors, where I have worked for three and a half years. Also during 1996 Mallard moved into its office in Newark, Delaware.

As of January 1, 1997, Mallard officially opened its doors. This included 'shifting over' three family accounts from my personal supervision to that of Mallard. While this sounds simple, it included steps necessary whenever adding clients: creating a contract, an Investment Policy Statement, and adding information about each investment to the portfolio tracking software.

In the past three months, Mallard has added two non-family clients and one additional family client! Both non-family clients accounts include substantial common stock positions.

Charles D. Ellis' Small Slam

I recently came upon this article in an AIMR journal. Charles D. Ellis, CFA, Ph.D., has also written a terrific book, <u>Investment Policy: How to Win the Loser's Game</u>. In this article, he recommends that investment managers be more 'courageous'.

He is talking about having fewer stocks in a portfolio, say 24 instead of 240. He acknowledges that there is some risk reduction achieved by holding 200 names. However, he points out that the manager increases the risk of uncertainty when trying to monitor so many stocks.

A more concentrated portfolio requires discipline. Ellis relays an approach which legendary investor Warren Buffet has proposed. Grant yourself 20 calls. After making these calls, you must retire. This forces you to research more, and make (hopefully) better decisions. Quite a scary proposition!

This approach does, however, answer a question which has always nagged at me: if a mutual fund manager has a ranked list of their favorite 240 stocks, why do they invest in the bottom half of these? Haven't they already admitted that they have more confidence in the top half?

Tidbits from Warren Buffet

I consider Warren Buffet to be one of the top five investors of the twentieth century. His words of wisdom, as chronicled in the BRK annual report, are so valuable that some investors have resorted to buying the shares (each of which trades in excess of $30,000) just to get the report. Thus when I found the annual report on the internet at www.berkshirehathaway.com, I immediately printed it out. The next quarterly report will be posted on May 17th. I will quote a passage or two from the 1996 annual report here:

'Obviously many companies in high-tech businesses or embryonic industries will grow much faster in percentage terms than will The Inevitables. But I would rather be certain of a good result than hopeful of a great one.'

'You must also resist the temptation to stray from your guidelines: If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes.'

'If history supplied all of the answers, the Forbes 400 would consist of librarians.'