
The Mallard Message

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Mallard Asset Management Corp

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Frequently Asked Questions

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

- 1. What is investment discretion and what it is not?** Investment discretion is the authority to request the purchase and sale of investments (stocks, bonds, mutual funds). It is not the authority to request the distribution of any money out of the account.
- 2. Why do you want investment discretion?** Once the client and Mallard agree on the Investment Policy Statement, the execution phase begins. This is most efficiently performed directly by Mallard. This avoids delays due to client's other responsibilities, vacations, etc. As I report on the investment performance of portfolios managed by Mallard, I would like to have as much control as possible on the investment moves.
- 3. Is Mallard 'bonded', or what assurance do I have that Mallard will not jeopardize my portfolio's value?** I characterize this as the 'how do I know you will not fly to Rio with my money' question. As I mentioned while answering the first question, I seek investment discretion, not withdrawal discretion. I do not have the ability to request withdrawals from client accounts. Regulatory agencies, often require 'minimum capital requirements' for firms such as Mallard. Unfortunately for consumers, these amounts are not



escrowed, and therefore can offer a false sense of security. Your best assurance is that Mallard follows the Investment Policy Statement closely, and Mallard does not have the authority to remove funds from your account.

- 4. What do you do when you take vacation?** As a matter of fact, my family is going to Disney World next week, from June 29th through July 6th. I will be checking my phone messages from Florida. Please make sure that you leave your phone number with your message; this will help me respond. Please also let me know if you need a call back **prior** to Monday the 7th. Whenever I am away from the office for more than a half-day, whether for a business trip/meeting, or for personal purposes, I check my answering machine to ensure that I do not 'leave you hanging'.



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Mallard Update

Four weeks ago, when asked how things are going at Mallard, I would explain that while I only had six clients, I had a 'very healthy pipeline' of likely prospects. That changed dramatically in the past two weeks.

All (yes, **all**) of the strong prospects in the pipeline have agreed to become Mallard clients. I will be quite busy in the coming weeks, both in preparing 2Q97 reports to earlier clients, and in developing Investment Policy Statements for the new clients. I will not accept further clients until I have substantially completed this work.

In time, I plan to maintain about thirty clients, and I would like to have at least fifteen by the end of this year. While I have been fortunate to be continuing five relationships which I had developed in my past position, I have also signed clients unrelated to RKM Advisors. It is reassuring that my base of prospective clients is broad.

I encourage both professional referrals and personal ones. As I mentioned in my last newsletter, if you know of someone who could benefit from being a Mallard client, I would be pleased to take you and your friend out to lunch, to get acquainted.

Changes at the SEC

Last Fall Congress made changes to the laws governing investment advisors. The purpose was to improve the allocation of federal and state resources to better regulate investment advisory firms. The major change is that beginning this July, the SEC will regulate 'large firms', those which manage over \$25 million, and will leave the 'small firms' to the states to review.

How does this affect Mallard? I am now, and should continue to be a 'small firm'. I have been registered with the state of Delaware and the SEC since last December. I recently updated my 'form ADV' with both, reflecting the end of my employment at RKM. If you would like a copy of my recent form ADV, please give me a call. As I have

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fewer than five clients in other states, I have not registered with any other jurisdictions.

This summer, the SEC will relinquish responsibility for regulating Mallard. The State of Delaware will assume primary responsibility for monitoring Mallard at this point. As I accumulate pockets of clients in other states (Maryland and Pennsylvania are the next likely locations), I will register with them.

Will Delaware do a worse job than the SEC in reviewing Mallard? In theory, the answer is no. Delaware will be able to focus on small firms such as Mallard, and will not need to 'go up against the big guys', leaving this to the SEC.

Should you have questions, you can give me a call. Alternatively, you can contact the SEC at 202-942-8970 (actually they do not publish their phone numbers, but this is the number of one person I spoke with during my registration process), or the State of Delaware Department of Justice at 302-577-2515.

Time to Worry?

If you have money invested in US stocks, then certainly you should be concerned with the current levels. However, I recommend a hybrid micro/macro approach for stock investors. Consider each stock on its own merits, rather than analyzing the overall market. More importantly, focus on the large picture.

For example, if your stock portfolio is designed to provide steady dividend income for years, and your goals are not jeopardized by year-to-year price swings, then you do not need to lose sleep over the height (or depth) of US stock valuations. Also, remember to focus on the overall asset allocation, the amount in stocks versus bonds, US versus international. In the past, these decisions dramatically overwhelm the impact of decisions such as when to enter and leave the markets.