The Mallard Message

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Frequently Asked Questions

1. **How is Mallard doing?** The number of clients and the assets under management has grown in 1998. I manage over $5 million for fifteen clients. I am halfway to my goal of thirty clients.

2. **When should I consider using a professional money manager such as Mallard?** This is a very difficult, and personal, decision. I recently purchased several copies of a brochure that Schwab published, "Making the Move to Professional Investment Management". Pam, my wife, points out that it answers many questions that prospective clients may have. There is a section on whether it is right for you, and how to go about selecting a manager. If you would like to receive this brochure, please let me know and I will send it to you for free.

3. **Should I be using mutual funds or individual stocks and bonds?** The answer is, it depends. When I develop a strategy to help a client meet their goals, I consider their comfort level with each type of investment. I consider whether they have an existing portfolio, especially if they have a number of individual stocks that have appreciated since their purchase. I consider their tax bracket, and the size of their portfolio.

4. **How is your son doing?** OK, I don't get asked this too often. Mike completed third grade at the Elementary Workshop, a Montessori school in Wilmington, Delaware. He will continue with his kung fu in the summer, but will be taking a hiatus from his piano lessons (his teacher on an eight week vacation). He will spend time swimming, camping, travelling, in short, being an eight-year-old. I am very excited about leading a Stock Investing course in his classroom beginning in December. His class has students from 4th through 6th grade.

5. **Does Mallard still offer a free lunch?** Yes. If you know of someone who would be interested in Mallard's services, I would be pleased to take you and your friend out to lunch, to get acquainted

Inside This Issue

Asia--Is It Safe To Go Back Into The Water?

The Asian death spiral began approximately one year ago. Stock markets have crumbled, major construction projects have been cancelled, banks have closed, a president has resigned. Is it safe to invest in Asia again?

I don't know. I have heard market analysts argue both sides of the question. One compared the current situation in Asia to the Great Depression in the US, a problem that took a decade from which to recover. Another believes that Asia is very near a trough, from which future performance will be exciting, especially in countries such as South Korea that move swiftly to adopt market-related structural reforms.

Let me share my convictions. The uncertainty in the region is too great to go overboard with Asia investing now. Several of these countries appear sincere in their efforts to adopt serious reforms. I expect that these countries will emerge from the mess much stronger than before, and much earlier than their more-reluctant neighbors.

You should determine how much you should be investing in Asia in 'normal times'. If you currently are below these targets (either by design or due to Asian losses), consider beginning the process of returning to your normal level. A regular, monthly or quarterly, program of small purchases is very well suited for the ups and downs that are likely to continue in Asia.

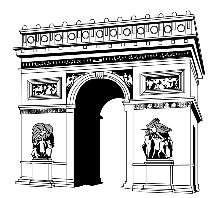
Japan--The Japanese government is amazingly resistant to adopting measures that most of the world considers necessary to pull Japan out of an economic malaise lasting most of the decade. The stock market appears to offer some bargains, however a supportive government would greatly improve these companies' ability to perform well. I favor multi-national Japanese companies that are less dependent on the Japanese economy at this time. As with the rest of Asia, I recommend that you look at your 'normal' allocation to Japan, your current allocation, and that you develop a plan to make progress towards your normal allocation. Given my reservations with the Japanese government, I suggest that this program can be slower than the one you use for the rest of your Asia investments.

Europe--The Good, The Bad, and The Ugly

Much of Europe will be adopting a single currency in six months. Should you be investing more, or less, in Europe at this time?

I am fairly optimistic about European stock markets. The Euro (the nickname for the new currency) is one of the reasons for this optimism. Consider if companies in the US had to file tariff forms and exchange currency whenever they shipped to another state (exchanging Delaware dollars for Pennsylvania dollars, etc)! Euro-companies should improve their profitability in 1999 due to this alone.

European companies are also becoming much more shareholder-friendly. Culturally, European companies tailor their reporting to the governments (for tax filings) and to the banks (their lenders, and often their investors). Just in the past few years, several European companies are recognizing that there are benefits to improving communication with individual and institutional stock investors (including mutual funds). In many cases, management has begun to focus on stock performance.



As a result, European companies have become more attractive, both to US and to foreign investors. Further, this attention to shareholders is contagious. With barriers between countries falling, as a French company courts its shareholders, it becomes more difficult for a German company to continue to stonewall theirs.

Trouble spots in Europe include cultures that presume a high level of social services. This environment is largely responsible for the very high unemployment. The situation is unlikely to be reversed quickly. I am hopeful that progress will be made steadily in the next decade.

Three Month Activity

In this section I review the transactions over the three months ending June 15th.

Mutual Funds—I continue to favor Vanguard for bond funds, index funds, their International Growth, and Specialized funds. I like several non-Vanguard stock funds, for both US and international equity investing. One client had a rollover from their 401K plan; I used low-expense Vanguard funds to quickly get the 'cash' invested again.

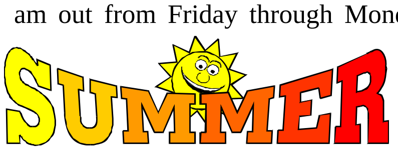
Bonds—I have continued to find individual bonds for some accounts; primarily these are municipal bonds maturing in five years or less.

Stock Purchases—Recent purchases include Air Express, Andrew Corp, Applebees, Bank One, Danka Business, Diebold, John Hancock Bank & Thrift (a closed-end fund), Norfolk Southern, Safeguard Scientifics, Seattle Filmworks, and Wolverine Worldwide.

Stock Sales—Sales are typically due to the stock exceeding expectations, having limited future prospects, and/or accounting for too large a position in the portfolio. Examples include Colgate, Corestates, Exxon, Just for Feet, and Seattle Filmworks.

Summer Plans

I will be taking several long weekends during the summer. Sometimes I will be visiting clients, other times I will be on vacation. There will be several times when I am out from Friday through Monday, including two or three times in August. When I am out of the office for more than one business day, I change my answering machine message to indicate when I shall return. Additionally, I check for messages when I am away, and I try to return urgent messages the next business day (even when I am out of town).



Schwab the Decks

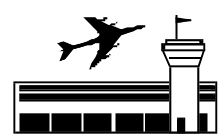
Beginning in July, I will no longer work with Schwab Institutional (the division of Charles Schwab & Co devoted to investment advisors). After the first year, they charge a monthly fee if your assets are less than $2 million. Neither Waterhouse Securities nor Vanguard charges this type of fee. I consider the fee unreasonable, and I fear that it introduces a potential conflict of interest.

I verified that my clients who had accounts with Schwab Institutional would save money at Waterhouse or Vanguard (more and/or better No Transaction Fee funds, lower transaction costs for non-NTF mutual funds, and/or lower commissions for stocks and bonds). I next worked with these clients to move their accounts from Schwab. One of my clients continues to use 'Schwab Retail', due to her comfort with Schwab. I receive duplicate statements from Schwab for this client, as I have from the beginning of our relationship.

Recent Conferences

I attended an annual meeting of Astrosystems in June with a client. This company is based in Wilmington, Delaware. The two of us were the only attendees, other than the board and an assistant. What a difference from the Hershey Foods annual meeting I and hundreds of others attended in April!

I attended a financial planning conference in Memphis in May. I went to sessions led by mutual fund managers, economists, and fellow fee-only professionals.



I attended the 3rd Annual Wharton New Ventures in Health Care Conference at the invitation of a client in April. I was intrigued by the decomposition of the industry into large pharmaceutical companies, small biotech companies, and medical device/procedure companies. I also was encouraged by the observation that today's venture capital firms are able to find better-qualified CEO's to lead biotech firms than they were ten years ago (there is a larger pool of experienced individuals).