The Mallard Message

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Frequently Asked Questions

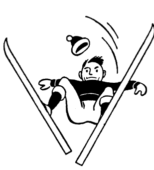
1. **How is your investments class going?** I have held three of twenty classes on investing in my son's classroom. They have gone well thus far, with both the students and the instructor learning much. In February the children will form teams and will manage a $100,000 paper portfolio for ten weeks. I will keep you apprised of the results. If you get my answering machine on Friday mornings, you know where I am!

2. **Is my portfolio large enough (too large) to be a Mallard client?** The typical portfolio is between $300K and $500K. There are five less than $200K, and three portfolios in excess of $800K. All of my clients are individuals (no corporations). Only a few are retired, while the rest are saving towards retirement. Several are planning for retirement in the next five years. All clients want to ensure that their savings will enable them to realize their goals. Most often a secure retirement is a top priority.

3. **Where is the article you write for the Internet?** I submit an monthly article on foreign mutual funds for the website Investors Alley (http://www.investorsalley.com/), under the Global Fund View heading. The headings are listed on the left, and you may have to page down to find Global Fund View. On two occasions, another writer has written an article for this heading, thus displacing my article for two weeks. Generally, my articles remain on the site for a month.

Winter Plans

I will be teaching on Friday mornings throughout the winter.



I will take a four-day holiday from February 11th to the 14th (Thursday through Sunday). In the process I will remind myself and my family why I don't ski more than once a year.

Year 2000—What is Mallard Doing?

By the time you receive this, we will be less than a year away from one of life's few predictable disasters. Like

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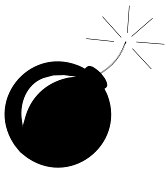
earthquakes, market crashes, and hurricanes, the Year 2000's effects can be predicted, but not with any certainty. Unlike other disasters, the timing of the Year 2000 event is known with absolute precision.

I hesitated to associate the term disaster with the Y2K (Year 2000's nickname) situation, however I chose it in order to grab your attention. The issue that the world is assessing is what will be affected, and to what extent. In the next several newsletters, I will address many of these questions.



Mallard's Y2K Compliance effort includes examining the internal, external, and physical connections. By internal, I mean that I need to assure that the phones, FAX machine, and computers will work. I also need to know that the programs will work. This includes the spreadsheet I use to compare after-tax yields of bond funds, the portfolio management software that computes clients' portfolio rates of return, and the word processor I use to write letters and newsletters. It also includes the accounting package I use to pay bills and create invoices, the software packages I use to research stocks and mutual funds, and the client management system I use to keep track of to-do lists and other client tasks.

My external dependencies include connections to the Internet, to Vanguard, and to Waterhouse Securities. I use these connections to quickly view recent transactions, to request new transactions, to communicate with clients and colleagues, and to research investments.

Mallard's physical requirements include electricity, phone service (including long distance and support of my toll-free line for clients), heat, and water. I am dependent on my landlord for most of these services, and he in turn is dependent on several utility companies.

Year 2000—What Should You Be Doing?

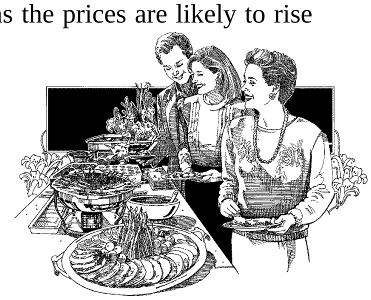
Some economists predict that the Y2K problem could cause a recession or depression, and that the effects could surface by the middle of 1999, and could last more than a year. They point to the impact of frantic last-minute efforts to prepare, and the likelihood of disruptions such as blackouts, brownouts, and possibility of partial collapse of some municipalities' services (911 service, water, trash, sewer, and police/fire protection).

Maintain a handy copy of financial statements, especially in the second half of the year. The financial services industry appears to be one of the most prepared segment of the economy. Nonetheless, it is wise to keep the late 1999 statements close at hand. You should check your statements in 2000 to ensure that there are no errors. You can use your 1999 statements in this effort, and to substantiate your case.

Most households should, and will, set aside a month's worth of cash. This will cover situations in which ATM networks experience outages, and local bank branches run short of cash. The US government printing presses are running constantly for the next year to prepare for this expected demand. Consider using **travelers checks** to reduce the danger of sitting on a large amount of pure cash.

I do not feel so compelled, however some people will feel that they should purchase an *electric generator*. If you expect to do so, shop now, as the prices are likely to rise sharply as the year unfolds.

Open Buffett



You may know that my favorite source of investment wisdom is Warren Buffett, the CEO of Berkshire Hathaway. He typically restricts his public comments to his annual report and his annual shareholders meeting. I was fortunate to pick up a copy of <u>The Essays of Warren Buffett: Lessons for Corporate America</u>. I would like to list a few quotes here.

'*Beware of past-performance "proofs" in finance: If history books were the keys to riches, the Forbes 400 would consist of librarians.*' In the current environment where the large US stock have charged upward for so many years, it is important to realize that a high allocation to large US stocks is **not** a certain path to **future** riches. It is dangerous to presume that what served investors in the past will necessarily continue to do so.

Buffett was discussing his losing investment in US Air when he stated '*we will heed a prime rule of investing: You don't have to make it back the way that you lost it*.' In 1998 there were at least three market sectors that lost considerable value: small US stocks, REITs, and emerging market stocks. Instead of blindly charging back to each, I have examined each closely. In this manner I hope to avoid throwing good money after bad. Thus, when the examination uncovers good potential, and limited apparent downside, I recommend an increase. This has been the case for small US stocks, and some REITs. I have only recommended that emerging market investments be maintained, as I do not yet see a necessary recovery just around the bend.

Speaking of fear and greed, Buffett offers '*Therefore, we never try to anticipate the arrival or departure of either disease. Our goal is more modest: we simply attempt to be fearful when others are greedy and to be greedy only when others are fearful*.' This is indeed much easier to say than to do. Every ounce of human instinct compels us to follow crowds, to avoid investing in markets that are down, and to happily add to investments that are growing in leaps and bounds.

Three Month Activity

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

Mutual Funds—I began using the Columbia Real Estate fund, a closed-end Europe Fund, and the T. Rowe Price Equity Income fund. I have increased the use of the Managers International fund (which I mention in my current article at the Investors Alley website) the Hotchkis & Wiley Short Term bond fund, and several Vanguard funds.

I sold two closed end funds (Chile Fund and Templeton Dragon) to realize losses. I also 'shuffle' money between short term bond funds from Vanguard and Hotchkis & Wiley, depending on liquidity needs.

Bonds—I purchased one new municipal bond, as one municipal and one corporate bond were called or partially called during the three months.

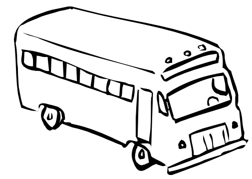
Stock Purchases—Increases to existing stocks included Applebees, Danka (a mistake), Helen of Troy, Philips Electronics, Shared Medical, and US Filter, and Wolverine World Wide. New purchases included Alcatel, Clayton Homes, Computer Associates, Dress Barn, Gateway 2000, OfficeMax, Payless Shoesource, Steelcase, United Technology, Volkswagen, and Washington Mutual. The purchases were generally of fallen small-cap stocks, and of some international stocks. Several purchases have been made of stocks sold a month earlier (benefiting from the taxable loss, and avoiding the wash sale limitation).

Stock Sales—Sales included 3COM, AEGON, Air Express, Andrew, Astropower, Atmel, Bank One, British Steel, Culp, Danka, Diebold, DuPont, First Security, First Union, Matshushita, JP Morgan, Motorola, National Semiconductor, Norfolk Southern, Pep Boys,

A homeowner should neither ignore the small chance of a fire (by failing to purchase insurance), nor should they spend every waking moment preparing the family and premises against this low-probability event. Similarly, while I do consider the consequences and recommended strategy (as I have just shared), I spend much more time serving my clients each day, and looking both ways before I cross the street!

Servicemaster, ST Microelectronics, Toys R Us, US Filter, United Technologies, and Wolverine. Most of the sales were prompted by the desire to realize capital losses, with some of the rest selected to reduce concentrated positions.

What if a Bus … ?



This is a very important issue. While clients enjoy the benefits of very personal service that a one-person firm offers, this comes at the cost of the potential uncertainty that an unexpected illness or accident would entail.

While I utilize trading authority over clients' portfolios, the portfolios remain in the clients' names, in accounts (often at Vanguard or Waterhouse Securities) over which the client retains full authority. Therefore, should I meet an untimely demise, my clients would continue to have full access to and ownership of their funds.

The Mallard process depends on the development and use of an Investment Policy Statement (IPS), a set of rules and assumptions that I use when managing clients' portfolios. One feature of an IPS is that it is written to a 'competent stranger standard'. Thus I write the IPS' such that a client can hand it to another money manager with the expectation that the new manager could follow a similar program.

Clients could, of course, choose to self-manage their portfolios for a period of time. In this case, too, the IPS will aid them in this effort.

I maintain a small list of advisors with whom I have dealt, and to whom I am pleased to refer people. None of them offer identical services as Mallard. The closest would be a Fee-Only™ financial planning practice that offers investment advisory services as a portion of its suite of services.

In future years, I would like to locate one or more firms that offer services more closely resembling Mallard's. This network could be used as backup to each other in cases of illness and extended vacations (I would like to head back to Europe in the future). It could also be used as a reference list to clients should one firm close.

Upcoming Conference

I will be presenting a workshop on "How to Use a Professional Investment Manager" at the 1999 Delaware Women's Conference on Saturday March 6th in Clayton

Hall at the University of Delaware. This annual event typically draws 1,000 attendees and offers over 50 workshops and many exhibits. **Give me a call if you would like more information.**

Past Conferences

The all-consuming financial planners' conference is finally behind me. It unfolded with nary a hitch, with the exception of the ankle I sprained one week earlier. I was able to attend many valuable sessions. I met six mutual fund managers, including Chuck Royce from the Royce Funds, who sees a tremendous opportunity in the small and micro-cap segments of the US stock markets. Morningstar has redefined its equity style box in a fairly dramatic manner, and with just cause. I look forward to examining the results of this reshuffle. Several speakers discussed the Year 2000 issue. I will utilize this newsletter now and in the coming quarters to share some of my thoughts and actions related to 'the Y2K thing'.

A client and I attended a luncheon at which the head of DuPont's investor relations department spoke about the company's future. We enjoyed his presentation on how DuPont was being converted from a commodity chemical company into a biotechnology company that applies its core strengths to new markets.