The Mallard Message

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Frequently Asked Questions

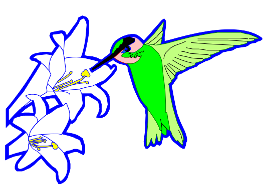
1. **How is your Investments class going?** We are nearing the end, having covered companies, stocks, stock listings, buying and selling stocks, using Value Line (donated by a client), use of internet for stock research, risk, compounding, and use of margin. Our six teams' average position is #78 out of 177 Delaware elementary/middle school teams. The kids and I are almost all ready for a summer vacation!

2. **What is meant by your free-lunch program?** For over two years I have offered this deal. If you know of someone who would be interested in learning more about professional, independent money management, give me a call. We will arrange a convenient time for me to take you and your friend out to lunch to discuss these issues in a relaxed setting. Any takers?

Spring Plans

I will be teaching on most Friday mornings through May 7th.

The office will be closed from Memorial Day (May 31st) to June 4th. I will be a chaperone on my son's school trip to Cape Henlopen State Park for the first half of the week, and will then head to a conference in Washington DC for the second half.



I will likely take one or two three-day weekends in June, and continue this practice during July and August.

Year 2000—What is Mallard Doing?

Nine months to go! I have run diagnostics tests on my computer systems, using the Check2000 PC Deluxe package. My computers passed, although the software pointed out some upgrades that are warranted. I have inventoried my software, and have ordered appropriate upgrades. I plan to accomplish the upgrades by June 30th. While I trust the results of the diagnostic software, I will double-check its results against information from each software firm by September 30th.

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A critical aspect that requires testing involves the computerized connections between Mallard and the brokerage firms I use (primarily Vanguard and Waterhouse Securities). I have been testing a new interface during March, and expect to upgrade my portfolio software during the Spring. These steps are all directed toward having a Y2K compliant configuration by December. Brokerage firms have been furiously testing their systems, and typically are prohibiting changes after June 30th. In this manner, firms such as Mallard can do our testing once, after June 30th, and once we pass we can be confident that the brokerage firms will not make any change later that would invalidate our efforts.

Note that when you do your testing you should be careful of setting your PC clock forward and testing your software. If you use software with expiration dates, as do I, this type of testing can spring a booby-trap. **Before** testing this software, contact the software vendor and ask how they recommend you perform this type of testing.

Year 2000—What Should You Be Doing?

Last quarter I mentioned keeping copies of late 1999 and early 2000 financial statements handy, and setting aside a few weeks' worth of cash. As a further financial precaution, I recently heard the advice of requesting a credit report on yourself in late 1999. Then in 2000 request another, and verify that nothing detrimental slipped in during the window of confusion.

Closely examine your medical needs. If you have regular medication (for high blood pressure, depression, diabetes, as a blood thinner, etc), or if you have regular needs for medical equipment such as oxygen, take time now to determine how much you would like to have on hand on December 31st. In the case of life-saving medication/equipment, I would want at least 30 days' worth on hand. I recognize that this can become a self-fulfilling prophecy of doom-and-gloom, however I can not identify a less-drastic alternative.

I understand that many medications take months to manufacture from raw materials, and that if the industry is not already preparing for this end-of-year stockpiling, there will be shortages. In a typical survivalist approach, I note that a shortage does not bother me as long as I have stockpiled what I need. You may wish to speak with your doctor, pharmacy, and/or medical insurance company to identify your rights to build up this reserve. **Don't wait until December for this!**

Un-Warren-ted Modesty

For thirty-four years Warren Buffett has comanaged Berkshire Hathaway, the company with the greatest net worth in the US. In the process, he has gained and imparted some terrific investment wisdom. I would like to share some comments from the 1998 annual report.

In the first two quotes, Buffett warns us to avoid the temptation of raising our expectations for future annual returns of 15% or more. "But one thing is certain: Our future rates of gain will fall far short of those achieved in the past. Berkshire's capital base is now simply too large to allow us to earn truly outsized returns. If you believe otherwise, you should consider a career in sales but avoid one in mathematics (bearing in mind that there are really only three kinds of people in the world: those who can count and those who can't)." Later he writes "The best rate of gain in intrinsic value we can even hope for is an average of 15% per annum, and we may well fall far short of that target. Indeed, we think very few businesses have a chance of compounding intrinsic value at 15% per annum over an extended period of time. So it may be that we end up meeting our stated goal—being above average—with gains that fall significantly short of 15%."

Buffett addressed stock options that are used to compensate employees: "A few years ago we asked three questions in these pages to which we have not yet received an answer: 'If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?'" I share his concern that the accounting of options is misleading, and that the temptation to re-price options, especially those granted to management, undermines the purpose of this incentive program.

True to form, Buffett does not hesitate to admit his mistakes. "Here, I need to make a confession (ugh): The portfolio actions I took in 1998 actually *decreased* our gain for the year. In particular, my decision to sell McDonald's was a very big mistake. Overall, you would have been better off last year if I had regularly snuck off to the movies during market hours." I have unfortunately had similar experiences, where a decision to sell a stock seemed to make a lot of sense at the time, but in hindsight has been a mistake. It seemed like 1998 offered more opportunities for this type of regret than prior years.

Three Month Activity

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

Mutual Funds—I continued to add to the Columbia Real Estate fund, Managers International, Hotchkis & Wiley Short Term bond fund, and several Vanguard funds. I made one purchase of the closed-end Singapore Fund, and have increased ownership of closed-end John Hancock Bank & Thrift and Royce Micro-Cap, two closed-end funds that have yet to rebound.

I sold all shares of SoGen Gold and SoGen Overseas, after finally having exhausted my faith in this organization.

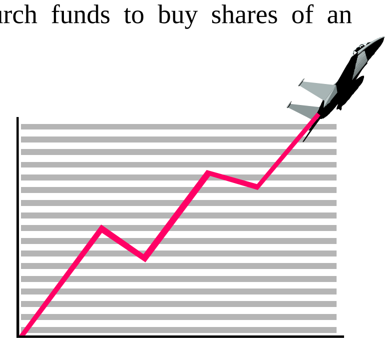
Bonds—I purchased several bonds, both corporate and municipals. Two bonds, one municipal and one treasury, matured or were called.

Stock Purchases—I purchased two REITS (Archstone and Parkway Properties), and several downtrodden stocks, including Diebold, OfficeMax. Smaller purchases were made of other out-of-favor stocks. Often these purchases replaced identical positions sold more than a month earlier for tax purposes. I have added two semiconductor stocks to one client's technology portfolio. After suffering a 40% drop, I have purchased further shares of Omnicare. I have purchased Computer Associates in two accounts; this has provided a wild ride so far in 1999.

Stock Sales—After an incredible run-up, I sold a large amount of Providian stock for a client with a concentrated position. It had risen more than 50% in less than 3 months. I sold the last shares of Andrew after a brief recovery in January; it has since dropped about 40%. I sold most of a position in Qualcomm after it more than doubled; it has since charged upward further. I have used shares of Pfizer and of SBC Communications to fulfill two clients' charitable commitments.

Ignore the Internet At Your Own Peril

Am I the only one who is ticked off at missing the internet investment craze? My FEDEX delivery person recommended eBay to me shortly after its IPO. One subscriber to the church treasurer internet list server I use recommended using church funds to buy shares of an internet fund, and then 'sit back and earn 50% or more in the next year'. The students in my investing class are earning more from Amazon, Yahoo, Broadcast.com, and E*Trade than are my clients. Is it time to throw in the towel? I don't think so.



As a fairly savvy internet user, you might expect that I have caught the internet-investing bug. Unfortunately, I have been too burdened with investment education and experience to be swept away. I grant that the internet is here to stay, that it is permanently changing the way that consumers and manufacturers conduct their business. I further grant that fortunes have been and will continue to be made in this industry. What I do not grant is that blindly throwing money at the latest internet IPO (initial public offering) is the path to certain wealth.

The internet industry is extremely competitive, and many of today's leaders will become tomorrow's failures. I fear that more fortunes will be lost in the future through internet investing as those that are made. This is especially true due to the industry's lack of 'barriers-to-entry'. As an example, this week Amazon.com announced that it is launching an online auction service. Suddenly, eBay has lost much of its appeal.

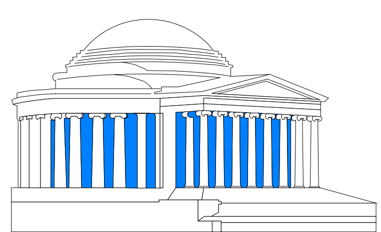
For this reason, I suggest that you consider whether you are satisfied with the internet stocks already in your diversified stock mutual funds. Two of the Munder NetNet mutual fund's top three holdings are MCI WorldCom and Microsoft. Microsoft is one of the top two holdings of Vanguard Index 500, and MCI is in the top 20. You are already an internet investor!

Alternatively, develop a program of gradually building an internet position. Reserve 5% or so of your portfolio for internet stocks, and reduce your other stocks by this percentage. For example, if you have a $300,000 portfolio, take $15,000 that would otherwise be invested in an S&P 500 index fund, and dedicate it for internet investing. As these funds generally have high turnover, you will do best if you buy this fund in an IRA account.

Next, identify a small no-load fund, with reasonable expenses that specializes in technology. Three such funds to consider are Northern Technology, Alliance Technology, and USAA Science & Technology. Use dollar cost averaging to reduce the impact of the high volatility (some of these funds fell 20% last August alone). Stick to the dollar cost averaging program, over a year or more, and refuse to deviate from the original plan, no matter how well or poorly things seem to be going. Finally, let me know in a few years how you make out.

Upcoming Conference

I will be attending the NAPFA (National Association of Personal



Financial Advisors) national conference in Washington DC on Thursday June 3rd through Sunday the 6th. I expect to attend sessions on advanced asset allocation, tax awareness, behavioral finance, and value versus growth investing. My wife and son plan to join me during the weekend for some sightseeing.

Whenever I am away from the office for more than a day, I check my messages and return urgent ones.

Past Conferences and Articles

In January I offered a Market Analysis at a Pennsylvania CPA conference. In March I spoke at the Delaware Women's Conference on the topic "How to Use a Professional Investment Manager". In February I submitted my fifth, and last, article for the Investors Alley website. I decided that this avenue offered the least benefit for the amount of effort it requires. I was quoted in the "Fund Your Future" article in The Wilmington News Journal's Spring 1999 edition of Delaware Woman.