



# Portfolio Notes

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## **Q: "WHY DIDN'T WALL STREET REALIZE THAT ENRON WAS A FRAUD?"**

**A: "BECAUSE WALL STREET RELIES ON "STOCK ANALYSTS". THESE ARE THE PEOPLE WHO DO RESEARCH ON COMPANIES AND THEN, NO MATTER WHAT THEY FIND, EVEN IF THE COMPANY HAS BURNED TO THE GROUND, ENTHUSIASTICALLY RECOMMEND THAT INVESTORS BUY THE STOCK. THEY ARE JUST A BUNCH OF COCKEYED OPTIMISTS, THOSE STOCK ANALYSTS.**

WHEN THE TITANIC WAS IN ITS DEATH THROES, WITH THE PROPELLERS STICKING STRAIGHT UP INTO THE AIR, THERE WAS A STOCK ANALYST CLINGING TO A RAILING, ASKING PEOPLE AROUND HIM WHERE HE COULD BUY A TICKET FOR THE RETURN TRIP."

**-DAVE BARRY AS QUOTED IN ED SLOTT'S IRA ADVISOR**

TO BE FAIR, MANY OF THESE ANALYSTS WERE BLINDSIDED BY THE NOW TARNISHED ILLUSION THAT CPA- AUDITED FINANCIAL STATEMENTS ARE BELIEVABLE.

LAST MONTH WE COMMENTED ON THE TRAGIC DEMISE IN THE REPUTATION OF CERTIFIED PUBLIC ACCOUNTANTS IN THE WAKE OF ARTHUR ANDERSEN 'S ADMITTED BETRAYAL OF THE PUBLIC TRUST WITH REGARD TO ENRON . IT HAS NOW BEEN SUGGESTED THAT GLOBAL CROSSING AND QWEST COMMUNICATIONS, TWO OF THE HOTTEST TECH STOCKS OF 1999 MAY HAVE HELPED ONE ANOTHER AS CROSS-CUSTOMERS IN AN APPARENT SHAM THAT CREATED PHANTOM SALES, A SCHEME THAT MAY HAVE BEEN AIDED AND ABETTED BY THEIR COMMON ADVISOR...ANDERSEN, OF COURSE.

INCREDIBLY, THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) HAS LAUNCHED AN ALL OUT EFFORT TO DE RAIL PROPOSALS TO BRING GOVERNMENT REGULATION TO THE ACCOUNTING INDUSTRY. ACCORDING TO THE WALL STREET JOURNAL (MARCH 14, 2002) "...THE AICPA KICKED OFF A MULTI-MILLION DOLLAR CAMPAIGN IN NEWSPAPER AND RADIO ADVERTISEMENTS THIS WEEK TO IMPROVE THE INDUSTRY'S BELEAGUERED IMAGE."

INDIVIDUAL CPA'S ARE BEING URGED TO CONTACT LEGISLATORS TO LOBBY AGAINST SEPARATING THE AUDIT AND CONSULTING FUNCTIONS. MAYBE WE'RE MISSING SOMETHING, BUT ISN'T THAT THE ESSENCE OF WHY SO MANY PEOPLE WERE HARMED?

AUDITING IS POLICING. CONSULTING IS FIGURING OUT HOW TO FOOL THE POLICE!

## **CPA'S AS SALESMEN**

CONFLICTS OF INTEREST AMONG CPA'S MAY BE HARMING THE INDIVIDUAL TAXPAYER TOO. THE TAX ACCOUNTING PROFESSION WAS NOT VERY PROFITABLE DURING THE 1990'S WHEN TAX SOFTWARE PACKAGES LIKE "TURBO TAX" STOLE CLIENTS AWAY FROM CPA TAX SPECIALISTS.

A FEW YEARS AGO, UNDER PRESSURE FROM ITS MEMBERSHIP, THE CALIFORNIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS BEGAN ALLOWING ITS MEMBERS TO SELL SECURITIES (PERFORM AS STOCK AND BOND BROKERS). MOST OF THEM WHO DO SO SELL MUTUAL FUNDS TO THEIR TAX CLIENTS. MANY PEOPLE STILL CONSIDER THEIR CPA TO BE A FOUNTAIN OF OBJECTIVE FINANCIAL WISDOM. THOSE WHO HAVE NOTHING TO "SELL" PROBABLY MERIT THIS HIGH REGARD. BUT WHEN AN "OBJECTIVE" ADVISOR IS ALSO COMPENSATED FOR PEDDLING INVESTMENTS, IT'S NOT HARD TO SEE HOW CONFLICTS OF INTEREST CAN WORK AGAINST THE CLIENT.

## **FEE ONLY ADVICE**

I CHOSE TO BECOME A FEE ONLY FINANCIAL PLANNER BECAUSE I BELIEVE IT IS IMPORTANT FOR CLIENTS TO KNOW THAT THE PORTFOLIOS I SUGGEST, THE STOCKS OR BONDS I BUY FOR THEM ARE CHOSEN WITH ONLY THEIR BEST INTEREST IN MIND.

THIS STATEMENT IS NOT INTENDED TO BE SELF RIGHTEOUS OR SELF SERVING. THERE ARE MANY WELL-INTENTIONED REGISTERED REPRESENTATIVES AT STOCK BROKERAGE FIRMS AND IN THE ACCOUNTING AND FINANCIAL PLANNING PROFESSION WHO ACCEPT COMMISSIONS. BUT



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AN INVESTOR WHO DOES NOT QUESTION THE INCOME SOURCES FOR HIS/HER ADVISORS IS FAIR GAME FOR THE UNSCRUPULOUS.

## HOORAY FOR DETROIT!

AMERICAN AUTO MANUFACTURERS ARE NOT KNOWN FOR THEIR PROGRESSIVENESS. THEY HAVE OPPOSED EVERYTHING GOOD FOR THE CONSUMER FROM WHIPLASH -PREVENTING HEADRESTS TO SEATBELTS TO AIRBAGS. THEY HAVE ALWAYS OPPOSED ANY ATTEMPT TO REGULATE ENERGY EFFICIENCY. IN THIS REGARD, AUTOMAKERS RECENTLY LEVERAGED THEIR CONSIDERABLE POLITICAL CLOUT TO DEFEAT PROPOSALS TO PUT TEETH INTO FLEET FUEL EFFICIENCY STANDARDS THAT WERE ENACTED DURING THE ENERGY CRISES OF THE 1970's. CONGRESS FAILED TO INCLUDE TRUCKS IN THE STANDARDS. UNLESS YOU'VE LEARNED TO TRAVEL BY TELEPORTER, YOU'VE PROBABLY NOTICED THAT CALIFORNIA'S FREEWAYS ARE HEAVILY POPULATED BY ENORMOUS PICK UP TRUCKS AND SUV's, SOME LARGE ENOUGH TO HAVE THEIR OWN ZIP CODES, BARRELLING ALONG AT HIGH SPEED AND SUCKING UP IMPORTED FUEL.

CONGRESS APPEARS MORE THAN READY TO SPEND SUMS OF MONEY TO MAINTAIN STANDING ARMIES IN THE MIDDLE EAST BUT IS UNWILLING TO DEAL WITH A PRIMARY REASONS FOR SUCH EXTENSIVE UNITED STATES INVOLVEMENT IN A VOLATILE AND DANGEROUS REGION: OUR DEPENDENCE ON FOSSIL FUELS.

OKAY, I'LL GET OFF THE SOAP BOX. WE CAN'T CHANGE THE WORLD, BUT WE AND OUR CLIENTS CAN CERTAINLY PROFIT FROM SOME OF TODAY'S ANOMALIES.

THAT'S ONE REASON WE COMMITTED FUNDS TO A REFINER CALLED VALERO ENERGY (SYMBOL VLO) BACK IN LATE DECEMBER WHEN GASOLINE COULD BE HAD FOR ABOUT \$.90/GALLON. THE STOCK WAS THEN PRICED AT ABOUT \$37-38/SHARE. THIS WAS NOT SIMPLY A COMMODITY PRICE BET. VALERO WAS THEN ABOUT TO CLOSE A MERGER WITH ULTRAMAR DIAMOND SHAMROCK MAKING THEM ONE OF THE LARGEST U.S. REFINER/MARKETING ORGANIZATIONS, SECOND ONLY TO EXXON/MOBIL's. CAPABLE MANAGEMENT, A HEALTHY BALANCE SHEET AND THE PROSPECT OF IMPROVED OPERATING MARGINS DUE TO THE MERGER WERE ATTRACTING



FACTORS. THE STOCK APPEARED CLEARLY UNDERVALUED ON THE BASIS OF LONG TERM GROWTH TRENDS. THE RECENT SPIKE IN ENERGY PRICES HAS SIMPLY ACCELERATED OUR PAPER PROFIT.

## CAN YOU BENEFIT FROM THE LIBERALIZED IRA DEDUCTION?

LAST YEAR'S TAX BILL AIMED AT ENCOURAGING AMERICANS TO SAVE FOR THEIR RETIREMENT. THE LEGISLATION MADE IT EASIER FOR HIGHER INCOME FAMILIES, EVEN WHEN COVERED BY A PENSION OR 401K PLAN AT WORK, TO OBTAIN A TAX DEDUCTION FOR AN IRA CONTRIBUTION. THIS COMES IN THE FORM OF A SPOUSAL IRA. A NON-WORKING SPOUSE MAY CONTRIBUTE UP TO \$3,000 (THE NEW HIGHER MAXIMUM) TO HER IRA AND THE FAMILY CAN TAKE THIS AS A DEDUCTION ON FORM 1040. THIS DEDUCTION IS AVAILABLE ONLY IF ADJUSTED GROSS INCOME (MARRIED FILING JOINTLY) IS UNDER \$150,000. BUT THE OLD LAW SAID AGI HAD TO BE UNDER \$52,000. SO IF YOU ARE A HIGH INCOME EARNER, YOU MAY NOW BE ABLE TO ENJOY THIS LITTLE TAX BREAK. CAUTION: CALIFORNIA STILL HAS NOT CONFORMED ITS LAWS TO MIRROR THE NEW IMPROVED FEDERAL STANDARDS. THIS MAY MEAN THAT YOU WILL HAVE SOME CALIFORNIA TAXABLE INCOME TO REPORT FOR ALL OR A PORTION OF THE AMOUNT THAT YOU CAN DEDUCT FROM YOUR FEDERAL RETURN. AS REPORTED IN THE LAST ISSUE OF *PORTFOLIO NOTES*, THE STATE SENATE HAS PASSED CONFORMITY LEGISLATION, AND THE GOVERNOR HAS INDICATED HE WILL SIGN IT, BUT THE ASSEMBLY MUST STILL VOTE FOR PASSAGE.

## THANK YOU, HAL SHAEFGEN!

RECENTLY, CLIENT HAL SCHAEFGEN OF COSTA MESA, A SEMI-RETIRED AEROSPACE ENGINEER, WAS KIND ENOUGH TO TELL ME HOW HAPPY HE WAS WITH HIS PORTFOLIO'S PERFORMANCE. I ASKED HAL TO PUT THIS INTO WRITING AND HERE'S WHAT HE HAD TO SAY: "LATELY I HAVE BEEN LOOKING AT THE BIG PICTURE, THE RESULTS OF 17 QUARTERS OF MANAGEMENT. I AM SOMEWHAT SURPRISED NOT ONLY AT HOW WELL YOU (WE) HAVE DONE BUT ALSO HOW MUCH BETTER THE RESULTS HAVE BEEN OVER THE DIVERSIFIED APPROACH OF \_\_\_\_\_ \* ... WITH YOUR MANAGEMENT THERE HAS BEEN A NET GAIN OF 85.5% OR A COMPOUNDED ANNUAL GROWTH OF 15.6%..." HAL'S GRACIOUS LETTER IS DATED FEBRUARY 3 2002 AND SO INCLUDES THE RECENT BEAR MARKET PERIOD.

\*NAME OF A DISCOUNT BROKER WHO OFFERS FORMULAIC ASSET ALLOCATION PORTFOLIOS.