



Trusted Advisor

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A YEAR FOR GRATITUDE

For the seventh year in a row, clients gathered for our year - end "Client Appreciation Holiday Celebration". As in recent years, we feasted on a menu prepared by Mr. Stox, the award winning restaurant in Anaheim, and enjoyed music and the good company of old friends and new acquaintances.

We hold these luncheons for two reasons - it's nice for my wife Eileen and I to get together with clients who have become friends over the years, to relax and to pig



Jim & Cathy Herman, clients have 6 Great-Grandchildren

out! It's also a way to express our appreciation for your business.

And it requires that I face my clients, in a group, and review our performance for the year, good or bad. Many investment professionals fear holding a meeting like this. Recently, they've performed poorly. Perhaps they've told different stories to different customers to explain an inconsistent (or non - existent) investment philosophy. This could lead to some embarrassing questions in a group setting! I have no such qualms. I have a clearly explained approach and we develop personalized portfolios that must meet our pre-stated criteria. ¹

Nearly everyone in the room at this luncheon lost money this year, and yet this was a luncheon I looked forward to. After a thirty three month bear market and one of the worst years since the Great Depression, all of our discretionary accounts are in relatively good shape, and clients know it. Here's a summary of our relationship with current clients:

- Our Client losses have been manageable in an equity market so terrible that it has forced thousands of financial professionals to leave the business in shame.
- We have been *adding* new clients, thanks mostly to recommendations by current customers.
- Many clients have written letters of appreciation.
- Other clients have been kind enough to speak with prospective customers by telephone and give an honest appraisal of our abilities.
- When we converted status from Registered Investment Advisor *Representative* to fully licensed Registered Investment Advisor, a process requiring some paperwork from our clients, virtually everyone signed on.

I feel grateful to be serving people who have realistic expectations about their investments, and who have allowed me to minimize the damage to their investment assets during a historically difficult market environment.



CERTIFIED FINANCIAL PLANNER™

Gary Miller is in his 30th year of providing financial guidance to individuals and pension plans. He is a Registered Investment Advisor and a Certified Financial Planner™ Practitioner. Gary holds a Certificate in Personal Financial Planning from University of California, Irvine and has served as a Board member of the Financial Planning Association, Orange County Chapter.

For information about attending one of Gary's seminars please call 949-249-2057 or e-mail: gary@trustedfinancial.net

IT'S ABOUT CHARACTER

My wife Eileen and I have been enjoying the CD version of David McCullough's biography *John Adams*. I highly recommend this book as a study of why the foundations of this country are so grand and what constitutes "character" in its best sense. Adams had a righteous sense of justice and, seeing the injustice of Great Britain's treatment of the American Colonies, was one of the earliest advocates of independence, a controversial subject at the time. During the revolution he was a loyal servant to his country, crossing the North Atlantic in winter, where he convinced the French to provide naval assistance, the factor that proved the winning edge at the decisive battle of Yorktown. Later he was loyal Vice President to George Washington and of course served as our second President. What I had not previously appreciated was his extensive authorship of the Constitution of Massachusetts, one of the first to contain a Bill of Rights. His overriding sense of duty to his nation and to his family is an inspiration to those of us who value these personality traits.

Why the history lesson? Because we have seen how people who do not exhibit these qualities have hurt others. Another book I'm now reading *Pipe Dreams*² is the story of Enron and especially it's charismatic leader, Kenneth Lay. The author assigns blame for the costly debacle to Lay with the statement: "Fish rot at the head". Aiding and abetting Lay and his scurrilous cronies were Wall Street brokers hungering for lucrative investment banking business. For their perfidy and countless other abuses, virtually every Wall Street firm recently agreed to pony up \$1.4 Billion in fines. That's a lot of money, but nothing compared with the cost of deception suffered by average investors. I am reminded of this as I write on January 8, 2002, a day when the Wall Street Journal is trumpeting yet more customer abuse by the large brokerage firms: "A NASD Probe has found Evidence that Large Brokerage Firms Are Overcharging Investors Who Make Large Mutual Fund Purchases"³

We live in the television and movie age when too often "charisma" is a cheap substitute for character. Throughout most of the 'Nineties, the media worshipped corporate personalities simply because they commanded large enterprises and controlled vast amounts of capital. Many, but far from all of the scoundrels, have been found out in recent months. They've been embarrassed, and now their wives are ashamed to show up at the Woman's Club luncheons (perhaps a luncheon inspired by Martha Stewart). Boo Hoo.

How about the folks who worked for these miscreants each day, did the important jobs like secretary, research, inventory control etc. and then lost their 401K savings when their companies went Kaplooie?

What about the millions of other honest hard working investors who suffered irreversible financial damage by following the advice of large Wall Street brokerage firms?

If you're like me, you've lost count of the ways in which the big retail brokers have picked the public's pockets. Respected Wall Street Analysts like Jack Grubman (Smith Barney), Henry Blodgett (Merrill Lynch) and Mary Meeker (Dean Witter/Morgan Stanley) were able to sustain the image and thus the price of dozens of laughable stocks, with their bullish (or shall we say bull----) reports, while receiving bonuses apparently tied to the amount of investment banking business they could attract from the companies they "analyzed". E-mail records show, in the case of Blodgett at least, that he did not believe what he was telling Merrill's clientele as he produced the reports.

When I was a broker, the smart people among us took any recommendation we were given by the firm with a grain of salt. I learned at one point that when a stock offering went badly, and the firm got stuck with shares, they would force one of the firm's own mutual funds to absorb the leftovers. Unbeknownst to the fund's shareholders, they were being victimized while the "house" cleaned it's shoes. So, one of the first policies I instituted was to never

use a “house sponsored” fund for my clients. Many of my office mates, however had no such qualms, and the little perks and bonuses along the way helped assuage any reservations they may have had.

This is not to say that all brokers are bad. There are many who try to do a good job for their clients. They are hindered, however, by being fed bad information, and forced to waste valuable research time performing operational and secretarial tasks. So worn down are many brokers that out of sheer exhaustion, they take the easy route and pass along the corporate sales story *du jour* to hapless clients.

In recent years it has been fashionable to shift the burden of thinking entirely off the broker’s back by offering clients “managed accounts”. The problem is, few if any of these pricey programs has performed better than no-load mutual funds

Forgive the finger pointing, but as many clients know, I was affiliated with retail Wall Street firms for seventeen long years. There were some fine people in the business, but they were usually thwarted by a system that stifles independent thinking, and does not reward anything but sales volume - a prescription for the disasters that have befallen so many investors. Having survived the Wall Street environment with my integrity intact (no corner office for me), I voted with my feet two years ago and got the heck out. My clients now have opportunities that were not previously available, in the form of no load mutual funds, low commission brokerage service and most importantly an advisor who is free to do his own research, and motivated by something other than the next sales commission. Without these things in their favor, I believe clients would not have come through this bear market as well as they have.⁴

CHARACTER OF CORPORATE MANAGEMENT

Yes, it’s about character. One of the screens I subject investment candidates to is to look at the people who run the company or the fund. I especially like to listen to analysts conference calls to get a feel for management. Are they forthcoming or do they give brief, perplexing, “trust me” explanations? Do they have a clear appreciation of the importance of free cash flow as a measure of success or do they focus on “reported earnings” which have been managed with the help of accounting gimmicks?

Does management own substantial amounts of stock (not just options) so that they are motivated to have the company perform well for the common shareholders? Where did they work before? Do they siphon funds off through ownership of consulting companies or real estate that is used by the company? Is the Board of Directors relatively independent?

While I cannot guarantee we’ll be correct on every investment, be assured we must believe in management before we let them handle our clients’ money.

We’ll be providing a year 2002 review and 2003 outlook in the next few days. Please check our web site:
www.trustedfinancial.net

Gary E. Miller

(Footnotes)

¹ Prospective clients are invited to visit our web site and learn about our philosophy at www.trustedfinancial.net.

² Robert Bryce, Copyright 2002 Public Affairs Press

³ Wall Street Journal on line January 7, 2003.

⁴ Prospective clients may speak with my current clients.

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