

SELECTING & PROTECTING YOUR INVESTMENTS

Investments should be selected based on the following criteria:

Investment Goals, Risk Tolerance and Taxes:

Investment Goals:

1. Why am I investing? Cash flow needs; retirement; education planning; estate planning or accumulating wealth?
2. What is the time frame I have to invest? Short term (less than 5 years) or long term (5 or more years)?

Risk Tolerance (greed factor)

Risk - The chance that the actual return on an investment will be less than expected or to lose principal.

1. Types of risk:
 - a. Business Risk - the risk associated with the decisions made to run a business for profit.
 - b. Financial Risk - the risk associated with the exposure to financial loss through the use of leverage.
 - c. Interest Rate Risk - the risk associated with the potential for loss of return due to a change in interest rates paid.
 - d. Market Risk - the risk associated with taking an investment to the stock market (IPO)
 - e. Purchasing Power Risk - the risk associated with certain investments which are not inflation sensitive (real estate).
2. Investment vehicles are available by risk: conservative, moderate, aggressive.

Taxes

Investment income is taxed at differing rates:

1. Interest, dividend and short term capital gains are taxed at ordinary rates (15% to 39.6% depending on your tax bracket).
2. Mid term and long term capital gains are taxed at potentially lower rates (10% to 28% depending on your tax bracket).

Other factors affecting investments:

1. Liquidity (the ease with which an asset may be converted to cash without loss of principal).
2. Marketability (the ease or difficulty with which an asset may be converted to cash through an established market - not necessarily without loss of principal).
3. Interest rates.
4. International markets (for example: What is happening in Asian markets?)
5. Fiscal Policy - Congress controls the money supply through spending and taxation.
6. Monetary Policy - the Federal Reserve's control of the supply of money through changes in the discount rate (charged to member banks), the reserve requirements or open market operations and the fed funds rate (charged between banks).
7. Business cycles.
8. Greed.

Sources of information for investing: library, public television, internet, shareholder reports, business publications, magazines, industry analysts, US government data, brokerage houses.

Fundamental Analysis - the study of the overall economy, industry conditions, and the financial condition and management of the company as a method of securities analysis.

Technical Analysis - the study of charts and patterns of a company's stock.

Yield Curve - the relationship between the time to maturity and yields.

CANSLIM (from William O'Neal of Investors Business Daily)

C = Current earnings per share - are accelerating (25% in most current quarter)

A = Annual Earnings per share - average increase of 20% or more

N = Something New must be happening - new product, service, management means a new high

S = Shares outstanding = \$50million or less shares outstanding

L = Leader or Laggard = If relative price strength is at least 70 it is more of a leader.

I = Institutional sponsorship by pension plans or mutual funds (not brokerages)

M = Market = monitor price and volume daily so you don't just follow the market.

Look at advance/decline in issues.

Earnings Per Share is more important than dividends.

Selecting an Investment Advisor

1. Interview the advisor to see that he/she is compatible with your personality.
2. Make sure the advisor knows and understands your goals and risk tolerance.
3. Never select an advisor through the phone.
4. Request a background check from regulatory authorities for licensed security salespeople.
5. Require the advisor to give you a quarterly and/or annual "report" on the progress of your portfolio.
6. Evaluate your advisor on an annual basis comparing your portfolio to the respective market mirroring your securities. If the advisor is not performing, ask them why?