In the News

VENTURA COUNTY STAR

Sunday, March 6, 2005

Don't be intimidated, overwhelmed by investing jargon

In the old television spy comedy "Get Smart," the Chief would explain a complicated plan to Agent 86, who would afterward concede that he only missed one part: "the part after 'Listen to this.' "

At one time or another, most of us have felt the frustration of the Chief or the confusion of Maxwell Smart, depending on our level of comfort with the subject matter. Consider the first time one buys a home, meets with an attorney, faces an oncologist or consults an investment adviser: Very often the expert speaks a different language, full of technical terms and professional jargon. And consider how easily we take this language for granted when we are the experts.

Every discipline has its own nomenclature, which improves and streamlines communication for the initiated, but impairs understanding for the layman. Sometimes the nomenclature needlessly overcomplicates simple concepts merely as a barrier to competition; this is often the case among investment professionals. Individuals who could easily prosper through their common sense and intelligence defer to those who speak the language.

Paul **Orfalea**

Lance **Helfert**

Professional jargon intimidates people who could easily make their own investment decisions into following advice that may not be in their best interests. We often assert that investors should understand the business of companies they own, and we here assert that investors should understand the language of investing as well, or at least resolve to ask a lot of questions.

Mumbo-jumbo decoder

Investorwords.com claims to be "the most comprehensive financial glossary you'll find anywhere, online or off," and they may be right. With

See ORFALEA on D10

Even when information is accurate, it isn't necessarily useful

ORFALEA

From D1

more than 6,000 terms, the site presents an excellent resource for neophytes, experienced investors and a lovely illustration of the aforementioned problem. Here is its definition of "Return on Equity":

ROE. A measure of how well a company used reinvested earnings to generate additional earnings, equal to a fiscal year's after-tax income (after preferred stock dividends but before common stock dividends) divided by book value, expressed as a percentage. It is used as a general indication of the company's efficiency; in other words, how much profit it is able to generate given the resources provided by its stockholders. Investors usually look for companies with returns on equity that are high and growing.

This accurate definition includes six other terms that are hyperlinked for those who require further definition; we wonder if a layman would be better served with "how well a company reinvests its earnings."

Don't get us wrong; we love the site, but think that many "experts" must believe they get paid by the word. Consider the example of Ken Fisher, a successful investment manager and columnist. Referring to the historical stock market volatility of the first year of a president's second term, Fisher uses two pages (seven paragraphs and two charts) of his 2005 Stock Market Outlook to say that in the first year of a second term, the stock market might go up or it might go down, but if it goes down, it will go up later, and vice versa.

Bernard Baruch, a famous American financier and presidential adviser, was more succinct when asked for his opinion on the stock market. "It fluctuates," he said.

Accurate and useless

Both the definition from http://www.investorwords.com and the newsletter from Ken Fisher contain absolutely accurate information, which reminds us of a joke.

A pilot, hopelessly lost in fog as he approached Seattle, circled a building and shouted to a man standing at the window, "Where am I?" The man in the window shouted back, "You're in an airplane!" The pilot flew directly to SeaTac Airport and made a perfect landing. The amazed co-pilot asked how the pilot got his bearings from the man's answer.

"When he gave me information that was technically correct, but completely useless, I knew we were at AT&T's Technical Support building, and I know my way from there."

The information from investorwords.com and Ken Fisher is not useless — far from it. We urge our readers to investigate both resources. But unless we find a familiar landmark, neither provides adequate guidance.

Eschew obfuscation: The power of plain language

Steeped as we are in the nomenclature of our profession, it's easy to take for granted the terms we use every day (P/E ratio, enterprise value, etc.), forgetting that people from other professions or occupations likely feel insecure about asking for clarification. Worse, we sometimes become impatient when outsiders do not understand us, reinforcing the wall of jargon.

Worse still, some unscrupulous types intentionally use jargon to intimidate and confuse their clients/victims. Secret languages are a source of power, and power invites abuse. Professionals should be working to demystify investing, because it is far more rewarding to work with clients who truly understand what we are doing with their money. For those who make their living outside the financial world: plain language, clear conclusions and illustrative metaphors make our world accessible.

We study long and hard to master our craft and the language that comes with it. An aura of complexity rewards our egos after all that effort, but in truth, investing is simple. One prospers by buying low and selling high. One prospers by investing in companies one values and understands. One prospers by paying attention. Note that we say investing is simple, not easy. Professionals are paid to do the work, not to horde sacred knowledge.

— Lance Helfert and Kinko's Inc.

founder Paul Orfalea are the co-founders of West Coast Asset Management Inc., a private independent money manager in Ventura. Orfalea sold his interest in Kinko's two years ago. Atticus Lowe, an analyst at the firm, contributed to this column. Please e-mail questions to info@wcaminc.com. The principals of the firm or their clients may own shares in the companies they write about.

West Coast Asset Management, Inc.