In the News

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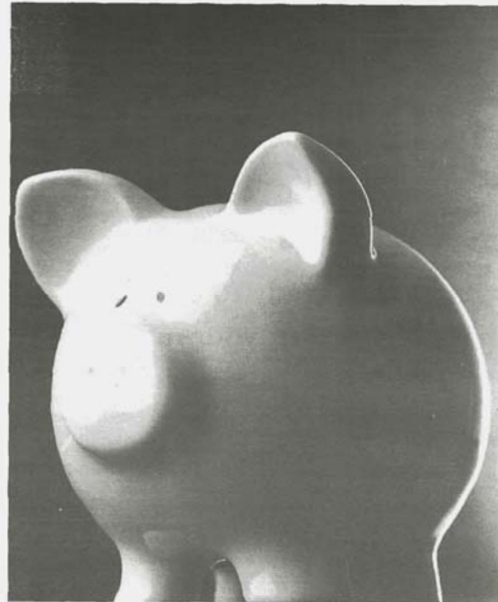
COVER STORY

Winning Strategies

Managing your money in '05



Profiting in 2005

by Jeff Voudrie

This time last year I predicted that the stock market would go up around 8 percent and the return on bonds would be lower than people had come to expect over the last 20 years. Those following my advice averaged 8 to 10 percent on their money last year. So what is your plan for 2005?

But wait! I was wrong! Instead of going up 8 percent the S&P 500 index went up 8.99 percent. I was also expecting bonds to earn 3 to 4 percent. The intermediate term treasury index only increased 2.02 percent. I recommended investors decrease the amount of money they have in bonds and increase the portion in stocks. I also suggested using Real Estate Investment Trusts (REITs) as a replacement for some of the money in the portfolio previously allocated to bonds.

For all of 2004, small company stocks were up 17 percent, the Nasdaq 9 percent, REITs 32 percent, and the large international index increased 17 percent. If you took my advice and had a well-diversified portfolio you should have averaged 8 percent. My conservative clients averaged 6 to 8 percent with some earning 10 to 15 percent.

Enough about the past, how should you invest for 2005? Exactly the way I recommended in 2004. I expect the stock market to return around 8 to 10 percent in 2005, albeit with some bumps along the way. Many people have been talking about a bubble in the real estate market. I disagree and believe REITs will continue to do well.

I anticipate that the Federal Reserve will continue to raise short-term interest rates in 2005. I don't expect long-term interest rates to dramatically increase. Since current rates are below the inflation rate, this rise should not seriously affect the economy.

There's been a lot of talk about the size of our deficit and its effect on foreign investors financing our debt. I believe President Bush will successfully get a budget passed that will assure the world that he is serious about reducing the deficit.

Over the last year, commodity prices such as oil, copper and natural gas increased dramatically. I expect commodity prices to continue to remain at these levels and possible even go higher as a result of the Asian and world economy's continued growth. Oil will generally remain above $40 a barrel with occasional spikes similar to what we've seen recently. I don't expect these higher prices to put a significant drain on the U.S. economy.

This overall scenario means that it will be difficult for those investors who are trying to earn 6 to 8 percent investing in bonds. It's simply not going to happen. For the next several years, even conservative bond-type investors will need to look to real estate and equities to average 6 to 8 percent per year.

Of course, real estate and stock market-based investments will fluctuate more than bonds. Many of the retirees I talk with are greatly concerned and compare the market's ups and downs to riding a roller coaster. The thought of losing the money they depend on to maintain their standard of living makes them queasy enough, especially after many of them lost a lot of money in the stock market between 2000 and 2002.

Unfortunately, most advisors follow the traditional "Buy and Hold," methods of investing which basically say you should be willing to sit by and do nothing while you lose 30 to 40 percent of your money. I strongly caution against that method — it just doesn't make sense.

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There *are* ways to invest in equities with the comfort of knowing that your lifestyle isn't at risk because of market fluctuation. Unfortunately, products like Equity-Indexed Annuities (EIAs) were developed by the insurance industry in an attempt to meet this need, but they force you to give up control and access to your money. You shouldn't buy any investment that requires you to pay penalties as high as 22 percent to get at your money. **CW**

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Ten ways to invest better in '05

Editor's note: Number two on the list of most popular New Year's resolutions for 2005 is "spending less money," according to the Marist College Institute for Public Opinion. But what's the best way to take the money you saved and invest it for your future? Ventura-based West Coast Asset Management (WCAM) provides 10 ways to help you do just that:

1. Invest in businesses you understand

Be wary of investing your money in companies you don't know. Take note of companies you see every day — and especially those that you see more of today than yesterday.

2 Pay attention to cash flow

Follow the cash as if you were monitoring your own finances. Read annual reports and stock offering documents. As we've seen in the past few years, earnings can be deceiving. Compare cash flow to earnings and consider where the money is going (i.e. dividends, stock repurchases and new investments).

3. Look at the balance sheet

Consider the enterprise value (market capitalization plus debt, minus cash) of a company — not just its stock price. Tangible assets such as real estate, cash and investments provide downside protection in uncertain markets. If you don't understand these terms, talk to your accountant or an investment professional you trust.

4 Understand competitive advantage

Prudent investors should always be looking across the street to see what their competitors are doing. Look for companies with high barriers to entry (potential competitors have a difficult time getting into the same business for whatever reason), product differentiation (how easy is it for a competitor to duplicate the product or service at a lower cost), low cost structures and patent protection.

5 Consider inventory

A toy store with its shelves full on Dec. 26 may be entertaining for youngsters, but investors beware. Pay attention to inventory turnover and product life cycles. Companies that specialize in the ever-changing world of technology are especially prone to write-downs.

6 Look for recurring revenues

The more the merrier. As Gillette investor Warren Buffett famously said, "I sleep well at night knowing that 2 billion people will awaken in the morning and shave."

7 Pay attention at the pump

Rising oil and natural gas prices result in higher cost of goods sold. This results in lower profits for companies who cannot pass these costs on to their consumers.

8 Observe company insiders

Pay attention to top executives who are purchasing or selling company stock on the open market. These insiders are close to the business and this can be an indication of where the company is headed.

9 Don't be afraid to sell

Know when to hold 'em and know when to fold 'em. Waiting for a stock to get back to a certain price can be a costly mistake. Consider taking the tax loss and moving on to better opportunities. If you are confident in an investment and its price gets cheaper, consider doubling down.

10 Be patient

Don't invest just to invest. Wall Street is neither rational nor logical toward the stock market. Patient investors should be prepared to take advantage of opportunities as they arise. **CW**

West Coast Asset Management, which originated in 2000 by Lance Helfert and Kinko's Founder Paul Orfalea, is an independent money manager that provides exclusive equity and fixed income management to high net worth individuals, institutions and charitable foundations.

West Coast Asset Management, Inc.