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## Investment Smarts

**The experts discuss ways to reap the rewards of investing wisely**

BY RICH ACELLO

“AMERICANS ARE FINANCIALLY ILLITERATE,” reads the headline on the CNNMoney.com Web site. The story cites a study conducted by the Harvard Business School showing Americans don’t know how long it takes to get out of debt, and that a lack of savings compounds the problem. A survey of 1,000 Americans released by the American Savings Educational Council and America Saves found only 28 percent of us setting aside the recommended 10 percent of our annual income.



To bend a phrase, “Investing well is the best revenge.” In this election year, there’s a fixation on the national economy bordering on obsession; markets are volatile, basic commodities like wheat are on the rise, and oil has been on the north side of \$100 a barrel. In San Diego, however, the vast majority of homeowners are still making the mortgage payment, and employment is holding steady. Experts say this is the perfect time to assess your personal investment strategy. Not only can you exercise greater control over your portfolio, but you can invest in new ways that will enhance your sense of community.

Jim Wagner is president of Carlsbad-based Trust Administration Services, specializing in the self-directed individual retirement account (IRA). Rather than fret over a bundle of underperforming mutual funds, investors can choose from an almost unlimited menu of what goes into their accounts, including real estate, mortgages, limited partnerships, corporations and even purchased domain names.

Wagner says a trust deed—the document that transfers the title of the property to a trustee, often a title company that holds it as security for a loan—can pay as much as 12 percent. Real estate might seem a reach in this market, but the conventional wisdom has always been “Buy low, sell high.”

“If you’re looking at a long-term investment prospect, now isn’t a bad time for real estate,” Wagner says. “Real estate and the stock market have always come back.”

Another sleeper investment, Wagner says, is financial stocks. “These have been beaten mercilessly because of the subprime mess,” he says. “There are some very good opportunities there.” In other words, Bank of America is not going away.

Speaking of banks, both Wagner and radio financial adviser Ray Lucia see an opportunity in local start-up banks called de novos. Typically, the de novo period lasts three years while the bank recoups its start-up costs, but after that takes advantage of its connections in the community—de novo bankers have usually earned their experience and connections at some other bank—and at some point in the future, the de novo either becomes a local powerhouse (i.e., San Diego National Bank) or an attractive acquisition target of some other bank that might be willing to pay a premium on the original investment.

“Let’s say you meet the president of the bank at a social event,” Lucia says. “You might develop confidence in that person, because you know them individually. In other words, you know the people at the top.”

One particularly lucrative local buy-and-hold play was Bank of Commerce. According to the bank’s former CEO, Peter Q. Davis, a share of BofC worth \$10 in 1975 was worth \$2,200 when the local concern merged with U.S. Bank in 1998.

LUCIA DISTINGUISHES THIS SITUATION from another seemingly attractive gambit, investing in local companies. After all, you’ve read about their exploits in the business pages, or have seen a company’s name atop a stadium or other entertainment venue. How could they not be successful?

“To be influenced to buy the stock because of its familiarity is a huge mistake,” Lucia says. “There are analysts that look at these companies until they’re blue in the face and can’t get it right—what makes you think you can get it right? Look at the fundamentals of each company and weigh each on its own merit.”

In fact, Lucia recommends against putting any more than 5 percent of assets into any one company, preferring EFTs (exchange-traded funds), which represent a basket of stocks in an industry sector. The advantage is the investor can play in the telecom world, for example, without running the risk of getting stuck with the next WorldCom.

Risk-spreading and diversification are the major keys to a successful investing strategy, says Lucia. And even though he’s on the radio, he says it’s wise to resist the siren song of media stock gurus who inspire the masses to believe they can beat The Street.

“It’s great entertainment but horrible investing advice,” he says. “You cannot time the stock market. The problem is you have to make two timing decisions—when to get in and when to get out. Those who think they can do this are kidding themselves. Buying and holding over broad indexes works better 100 percent of the time.”

AS INVESTORS learn more about the companies they support, they are not only demanding that their stocks earn a profit but that the wider community profits as well. This has led to a movement called socially responsible investing (SRI).

“SRI looks at more than the bottom line,” says **Jan Schalkwijk of locally based JPS Global Investments**. “You look at a company’s environmental, social and governance practices. You see how a company treats its employees, and its relationship to the community. You look at its governance: Is the board of directors independent? Do they act in the best interest of shareholders? Are CEOs overcompensated at the expense of the shareholders?”

Schalkwijk points to Netherlands-based Royal Philips Electronics (NYSE: PHG) as an example of a consumer electronics firm that is also a leading player in environmentally friendly LEDs (light-emitting diodes). Another SRI firm is Whole Foods Market (NASDAQ: WFMI), which not only offers organic produce to consumers but healthy margins (thus the nickname “Whole Paycheck”) for investors.

Which leads Schalkwijk to the central point about SRI companies: Investors need not worry about “leaving money on the table” if they’ve chosen wisely. “SRI should be about making money,” he says. “If they’re not attractive from a financial standpoint, I’m not going to invest in them.”

Some of the hottest SRI stocks can be found in the so-called green sector. “If you look at the current political environment, no matter which of the current candidates wins the White House, it bodes well for alternative energy,” Schalkwijk says. But beware: Since green technology has become Wall Street’s darling, green stocks could be overpriced, especially solar. He likes Ormat Technologies (NYSE: ORA), which builds geothermal power plants, and Applied Materials (NASDAQ: AMAT), which uses nano-manufacturing technology for semiconductor, flat panel-displays and solar industries but is not a pure solar play. “Everybody hasn’t jumped into the stock because it’s not identified as solar,” he says.

What about ethanol, our homegrown gasoline? Watch out. The price of corn is rising; the price of ethanol is not. Ethanol is a suspect in the rising cost of everything from beer to chips.

“Not every bandwagon is worth jumping on,” says Schalkwijk. “Especially if it is loaded with corn.”