A Matter of Opinion

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Recently I received a letter from a Doctor which follows:

"I am aware of your editorial policy however, I subscribed to AAII with the thought of easy access to productive suggestions. The impressive advisory boards credentials and articles are best suited for a Wall Street technician, not an economic layman like me. Instead of a simple medication for your high blood pressure without side effects I can offer you the world literature on high blood pressure. I am sure you will not understand one sentence. Can I expect you to pick up the best medicine to suit your disease? Please let me know if you can come up with the easier and more understandable advice in the future."

I would really like to be responsive and not "beg the question". As I see it, and I am sure the Doctor would agree, there is a range of complexity and choice. For some problems the solution is simple and the Doctor has the responsibility of telling the patient what to do. In other situations it is more difficult. Suppose a patient asks for the "best" method of birth control. Can the Doctor say — "this" is best? Or is there a responsibility to say, "Each of these approaches has a certain reliability for preventing conception and each has a certain degree of risk in terms of potential health risks. You will have to decide which degree of reliability versus which risk you choose to take."

Some aspects of investment decisions are straightforward like the Doctor's example. Some are complex with an efficiency (yield), risk trade-off. For much of the investment decision process, we

Commentary

Overall the market remains below its highs in the post election year recession. We don't practice precise short term forecasting and whether there will be a lower bottom or whether we have seen the bottom is a guess. At this point we see no reason to be getting out of stocks and no real reason to rush in. We remain 75% committed.

The interest rate yield curve is reverting to normal with long term yields above short term. Both rates are falling but many feel there will be an increase in interest again after the first of the year. Economic expansion would bring some upward pressure but reduced inflation should neutralize most of it. We moved into a 50% long term recommendation a bit early but feel that an even balance is still best.

Market Readings

	11/9/81	Last Issue
Dow Jones Industrials	852.45	873.00
D/J P/E Ratio	7.3	7.5
D-J Dividend Yield	6.5	6.3
M/G Equal Investment (NYSE & ASE)	1788	1747
M/G Value (Composite)	145.40	142.80
Triple A Bond Yields	14.83	15.38
T-Bill (3 month)	12.72	14.22
Prime Rate	17.5	19.0
AAII Adjusted Long Term Yield	13.33	13.88
Estimated Corporate Earnings Growth for Coming 12 Months	+20	+20
Per Cent Stocks Overpriced –		
(Current yield vs. AAII +5%)	85%	82%
(if yields increase 20% next year	73%	72%
(and interest rates decline 30%	52%	51%
(compared to long term P/E of 12)	30%	29%

Current Recommendation Equity Portfolio

Intermediate Term Timing

As of 3/17/80	75% common stock	M/G 3/17/80	1458
1/2/79 to 3/16/80	100% common stock	M/G 1/2/79	1189

Current Recommendation Debt Portfolio

As of 10/15/80

50% short term	50% long term	AAA Yields 10/15/80	12.4%

1/2/79 to 10/14/80

100% short term	AAA Yields 1/2/79	9.2%

The percentage of wealth that an individual should have committed to the equity portfolio, the debt portfolio and other investment areas must be determined based on individual circumstances. Recommendations relate to the portion of wealth committed to the debt and equity portfolio. The percentage of the equity portfolio not in stock should be in short term debt.

simply can't play God. All we can do is provide the basis for an individual's own decisions.

But we, as a Doctor, can sometimes play it too safe — hedge too much. Some investment, or medical, recommendations are easier. Because of the above letter, I have reflected on the degree to which good advice is general and the degree to which it must be left to the individual to decide. A side note here. While there might be arguments as to the competency of medical doctors, the fact is that there are standards of education and testing. There are no competency standards for investment advisors or stock brokers.

While I feel specific decisions involving yield versus risk must be left to the individual, I am willing to commit to certain guidelines for investors. The following 10 commandments seem to be true in almost every case and by themselves should improve the investment results of all "long term investors". The rules are presented here without explanation. Many of them have been dealt within articles in the *AAII Journal.* Others will be covered in the future. Many of these rules will start a debate. That's fine. Send me your comments. Here are the rules I wish I had always followed:

1. Diversify — the amount you have invested in the stock market should be spread reasonably equally among at least seven stocks.
2. Never buy preferred stock (convertibles excluded) unless you are a corporation.
3. Never put a substantial portion of your wealth in the stock market or take it out at one point in time. Ease in. Ease out.
4. Never invest any money in common stocks that you feel you will need in less than four years.
5. Never buy a stock that is getting favorable publicity in the press.
6. Never buy a stock that is recommended on a non solicited basis by a brokerage firm.
7. Never buy a stock that is included in the S & P 500.
8. Never buy "safe" or low risk stocks. Establish a suitable risk level between growth stocks and minimal risk debt securities.
9. Don't buy stock in the year following a presidential inauguration.
10. Don't believe in anyone else's system for making a "killing" in the market. If you find such a system write me "confidential" from your yacht and send your jet for me to come and discuss it.

There! A few straight forward rules that should apply to almost every long term individual investor. They won't make you a fortune. They may reduce your blood pressure.

This column reflects the opinion of Dr. Cloonan and is not the position of AAII, which under the Editorial Policy on Page 3, seeks only to provide a variety of information and viewpoints on investing.

TAX STRATEGIES

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plan and if additional dividends are accepted as payment rather than cash. Since such dividends can be effectively excluded from taxable income, investors with self managed IRA's or Keough Plans may wish to shift funds out of utility stocks so that the personal portfolio can be used to take advantage of the full effect of the tax deduction.

In this brief presentation we have attempted to high-light the areas in which investors can, through the implementation of various tactics, reduce their current income tax liability. These are but a few of the tactics which might apply to a specific individual or situation. We have not tried to act as a substitute for sound professional advice. However, we have pointed out the need for personal planning and have underscored the importance of the individual in tax planning. Remember that tax advisors are just that: advisors. It is the responsibility of each investor to make personal investment decisions and each investor must bare with the consequences of these decisions.

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Association News

REAL ESTATE TAX SWAP EXCHANGE

We have received several inquiries regarding the Association's real estate tax swap (IRS Code 1031) program. In the next 30 days we are going to prepare a list of members interested in participating in real estate tax swaps and will mail the list to all those who have expressed a desire to participate.

The real estate "tax swap" program is a vehicle which gives members the opportunity to locate other members interested in real estate "swaps". AAII will not be a broker or go-between except to provide an opportunity for identifying others interested in a potential swap. If you are interested, please send your name and address: AAII, 612 N. Michigan, Chicago, IL 60601. Indicate that you are interested in this service and we will send a registration form and additional information. There is no charge for this service.

AAII INVESTMENT SEMINAR PROGRAM

We are pleased to announce our plans for the 1982 investment seminar program. (See the schedule in this month's Journal.) The program is designed to assist individuals in managing their own funds. Programs in general investment, real estate analysis and securities analysis have been completed. We are currently working on the development of a tax shelter investment program and are contemplating a trust and estate plan-