The Investment Letter

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Father Knows Best

Upon reviewing our old correspondence files, the following letter was discovered. We believe it was written in the 1950's and the author is only known as "Your Loving Father."

Dear Son:

Now that you're on your own, I would like to impart some investment advice. Part of what follows was told to me by others, but most has been learned the hard way, that is, by trial and error. Perhaps you will be spared repeating some of my follies.

The modest amount your mother and I have given you represents a start. In order to invest, it is necessary first to save. A part of all income (including investment income) should be saved on a regular basis. If you think of saving as paying yourself first, it is easier to set aside a part of your income. Why should you pay the butcher, the baker and the candlestick maker before you pay yourself? After all, you are not working for them (or are you?). Saving requires self-discipline of all of us, no matter the age.

Your greatest investment ally is the time still ahead of you. Regular thrift habits will build a respectable financial nest egg. There is an old saying, "A fool and his money are soon parted." I used to laugh at this worn cliché, but no more. I have found every word to be more and more true with each passing year. Now that you have a savings program, it is time to give thought to the other part of the equation, investing.

Let us consider the value of two types of assets: those, which grow and those, which waste. We might label the first group as such things as ownership of real estate, or of a thriving business; assets with growing values. Then, there are those assets the value of which declines from the very first day of purchase. Automobiles and appliances come to mind. It is well to ask yourself which type of asset you are purchasing, the growing or the wasting type. Do not be obsessed by the acquisition of showy, wasting assets, just to impress your friends. Believe me, this obsession will keep you poor.

Seven places to put investment dollars present themselves. Five involve fixed-dollar returns: Bank deposits, savings and loan accounts, credit unions, bonds and life insurance. Two involve fluctuating dollar returns: real estate and stocks. In determining the best investment mix, consider these four risks; (1) dying too soon, (2) living too long, (3) inflation, and (4) deflation. In building for the future, it is best to use a four-corner plan: Cash reserves for small emergencies, life insurance for premature death, a systematic savings program during working years, and investment diversified between real estate, stocks and bonds. Investments that tend to grow, year after year, will reduce the financial risks of longevity. It has been my experience that level-premium term life insurance provides the most protection per premium dollar. (Remember, only through life insurance can you create an estate that you have not had time to save.)

Do not put all your savings into fixed-dollar investments such as bonds, certificates of deposits and the like. Do not put all your money into one type of asset either, as there is no such thing as a risk-proof investment. Diversify! Because you are beginning an investment program, emphasize capital appreciation rather than current income. The shares of growing corporate enterprises offer an excellent opportunity to make your capital grow. Buying a home in a good location and at a reasonable price is a sound investment and a tax shelter as well.

Keep learning. A diploma is just the beginning, not the end of knowledge. Learn from experience as well as from books. Learn from your mistakes as well as *your successes. Do not be discouraged; you may be surprised how well things turn out if you persist along a well-chosen, yet difficult, path. Lasting success is often built on adversity and extra application to a hard problem. You will hear much about the easy successes of others; often, these are only partially true or of a temporary nature. Another worn phrase, "Easy come, easy go" has meaning here. Do not be afraid of working hard; there is more enjoyment in it than you have been led to believe. Beware of get-rich-quick schemes. They are either full of peril or fraudulent. But enough of this moralizing; I will try to be more specific.*

1. *When making investments, get the best possible investment advice. Beginning equity investments may be made in one of many no-load investment trusts (mutual funds). If you select a bank trust department or Investment Manager, I would recommend that you choose an investment advisory-type of account in which you continue to retain some control over your assets and are comfortable with those managing the account.*
2. *Do not buy low-priced, speculative securities in the hope of a quick profit. Stick to high-quality companies with established records of growth. Most of the time the long way around is the short way home. Successful investing requires patience.*
3. *Always make investment considerations paramount. Do not let tax considerations be the primary influence in arriving at a conclusion as to whether you sell any of your securities.*
4. *Never buy securities on margin. If you run into financial troubles beyond your contingency savings, then you may need to borrow money, using your securities as collateral. Remember that excessive borrowing is the stuff from which bankruptcies are made.*
5. *Do not speculate in any type of commodities, options or get into any real estate, oil wells, cattle raising, or similar types of partnerships which promise you a tax savings. Usually, you lose your shirt in such deals. You get the tax savings, but often at the expense of losing your capital.*
6. *Once or twice out of every four or five years, you can count on a period of irregular or declining stock prices. Keep some of your money as a reserve, either in U.S. Treasury bills or in a daily interest savings account. Then you can buy stocks in one of the periods when stock prices are low.*
7. *In the long run, you will probably do better if you buy shares in companies which are growing steadily at a good pace.*
8. *In making bond investments, be guided by the going rate on U.S. Treasury obligations and buy only investment-grade issues. In inflationary times, it is best to keep bond maturities short, that is, within five years.*

Finally, never let a salesman talk you into anything. Ask lots of questions and make up your own mind and you will do fine!

- Your loving Father

One of the things that is so impressive about this letter is how amazingly little sound investment advice has changed over the past 60+ years. Over half a century has not altered the common sense and encouragement of this father's good advice: Save, Diversify, seek Growth, control Risk and above all, have Patience.

While the letter was written presumable to someone just starting out their working career and therefore their investing lives, the advice contained is a good reminder to us all, regardless of age or whether we are novice or seasoned investors.

Investment Counsel News

Inside the Office

Due to an overwhelmingly positive response we will now be providing our monthly *Investment Letter* in electronic format as well as a hard copy. Thank you for the feedback!

Outside the Office

Chris has been elected to serve as President of Warwick Hills Golf and Country Club for a one-year term!