

# Business

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## Investment intuition is not the same as responsibility

Having a 15-year-old daughter is not for wimps. Mine is about to drive, a frightening possibility for unwitting motorists everywhere. She believes the world is there to wait on her, as demonstrated by the nice young man frequently hanging around my house these days. This young man recently ventured a few short questions about the stock market as I earnestly tried to enlist him for a short round of golf with "the old man."

"How long have you been in the investment business?" was his first question.

Good, I thought. He is investigating my experience level. I replied, "Since 1981."

Then came a practical inquiry. "How much money do you need to get started in the market?" he asked. He obviously was not concerned with how much of his paycheck would be gone if he shared in sup-

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Real Money

porting my daughter's lifestyle. I assured him that a few hundred bucks would be enough to start buying shares in a company or two.

Going for the quick kill, he blithely asked, "Do you have a lot of money in the market?"

Whoa, I thought, what a personal question! This kid could be my therapist. "Enough to have a very strong interest but not enough to jeopardize my lifestyle if the market tanks for a while," I told him.

"Isn't it better to have your money in the stock market than in a bank?" he asked.

Maybe so, I pondered. Then I thought of the many people who probably wished they had held bank

savings accounts instead of investing in technology stocks these last 15 months.

Not wanting to discourage his healthy risk-taking, I ventured, "It is better to own stocks than CDs, but only if you can handle watching the value of your account go down sometimes." I added, "It sure helps if you know what you are buying." I stopped talking and let my mind wander to the images of people who didn't have much knowledge of the companies in which they invested. Among these, I found quite a few investors enamored with stocks they thought were socially responsible. I wanted to warn him about stock pitches from advisers whose business analysis ran a distant second to ethical pontifications, but I said nothing.

Then I snapped back to reality and realized that this kid just wanted to get out of my front yard and over to

his friend's barbecue, preferably with my little princess on his arm. He didn't want to listen to me rant and rave.

"OK," he finally said, "that makes sense." It looked like he had not followed my point and tuned me out, watching me spiral down into confusion.

Rallying to the occasion, I encouraged him to visit a discount broker in town. "They have some very informative free literature there. It could serve you as a primer on stocks and bonds. They give free seminars, too." Why didn't I invite him to one of our seminars?

Then I considered that in the financial-service world, simple ideas are often made complex because confusion creates selling opportunities. When eating a "free lunch" provided by out-of-town experts —

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whether they are speaking on charitable giving or the problems of one spouse having more money than the other — I caution all investors to find out who is picking up the tab. "These seminars are often good shows," I was surprised to hear myself say, afraid I was delivering sheep to the wolves.

I listened to the receding sounds of laughter as my beloved teen-ager and her date made their getaway. Perhaps they were betting each other on the chances that all businessmen were as obtuse as I. I regret that most of what I meant to say to this young man got lost. Does everyone's common sense take flight when they are confronted by emotional cross currents, be they adolescent hormone surges, the rush of greed as stocks skyrocket, or the sick feeling in the pit of the stomach as stock prices plummet?

Now that they were gone, I was left to talk to myself, so some progress in my conversation was possible. I thought about how I could have advised my daughter's friend, who is bright and genuinely interested in the market. I should have challenged him to come up with a list of the 10 best companies inhabiting his universe. As Peter Lynch wrote, firsthand experience and positive associations with a product are excellent reasons to invest your money in a particular stock.

I envision my imaginary protégé starting with the car he drives (Toyota) and moving on to his favorite airline (Southwest). Even though 17-year-olds don't buy many gifts, where would he shop to buy my bloodline prima donna a special gift? (I thought Target, but she assured me it would be someplace more risqué.) What kind of gas does his mother use in her new SUV?

(Chevron.) Next, I would ask him to investigate the company that made the last effective prescription drug he used. (Pfizer.) Which bank, if any, does his family like? (First Union.) Who provides their cellular-phone coverage? (Verizon.) What kind of PC does he want to buy next? (Dell.)

As a professional money manager, I know that investors do best with a diversified portfolio. So I would challenge him, and you, to look around and see what is being used, e.g., aluminum foil (Alcoa) or light bulbs (GE). As one of my favorite Roswell clients says, "KISS, baby, KISS," which stands for "Keep It Simple, Stupid."

How could I make this money discussion more real for the young man? I could have told him that New Mexicans' first estimated tax payment of 2001 is coming up on June 15. Because of the Cerro Grande fire, the IRS

granted this extension to the taxpayers in most Northern New Mexico counties. What better way to explain risk and return to someone than to show them an easy way to profit from the two extra months given us to pay our taxes?

I launched into an explanation to my imaginary potential son-in-law about how I had been buying tax-free bonds with this cash, earning interest free from federal or state tax. This outperformed everything else in the investing universe with a comparable safety level. "Wait!" I wanted to say to him, "remember the power of municipal bonds." Instead, I had bored him and myself to distraction.

Later that evening, as I relaxed on the couch, I heard them returning, talking about their plans to meet for breakfast the next day. "Your dad invited me to sit in on his company's investment-strategy meeting tomorrow," a

deep voice said. "Forget about it," my daughter's familiar voice replied, "You can do that any time. Besides, I played his stupid stock game and won every time."

Struggling to awaken fully, I strained to learn the secret of her successes in picking stocks. She continued, "Yeah, I just stepped up to the plate and outbid everyone else for the stocks I wanted. Since no one else had my level of confidence, they either sold to me and went away or followed me and bid the price up. So, no matter what, I always made money."

The young man admired her bravado. As he started to take his leave, they agreed that their breakfast together took precedence over my educational offering. Her Holiness then went off to watch TV, leaving me to puzzle over the unfairness of life and the markets. Why am I working so hard at analysis when she gets all the

answers intuitively? I suppose it is because I am responsible to real people who trust me with their life savings, so I can't play on hunches or rely on second-hand tips, because investing is anything but a game.

*Rob Rikoon is president and CEO of Rikoon-Carret Investment Advisors, New Mexico's largest independent money manager for individuals, families and nonprofit organizations. He can be reached at rrikoon@aol.com or at 989-3581. Rikoon-Carret is hosting a series of free seminars on the markets; the next one is to be held at 2 on 6 p.m. June 27. Reservations are required.*

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