The Papyrus

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Yes, You Can Retire a Multi-Millionaire

"The best time to plant a tree is 20 years ago. The next best time is today."

When Ronald Read of Brattleboro, Vermont, died in February 2015 at 92, he left behind an estate valued at more than $8 million, gifting it primarily to the local hospital and library. The surprise to many was that he accumulated his millions while working as a gas station attendant and janitor.

Mr. Read had a few definite advantages on his side including living a very long life, which gave compounding a chance to work its magic, and living through one of the greatest periods of stock market growth. But he also did a lot of things right that can help put one on track to accumulating millions.

1. He spent less than he made and saved money to invest.
2. He put his savings to work by investing.
3. He knew what he was invested in and why, and one presumes, given his habit of regularly following financial news, he actively managed his investments.

How important is #3? We would argue it is essential to profitable portfolios. Unless the investor knows what he is invested in and why, market volatility makes it too difficult for most people to stay the course during market downturns and even upswings when the temptation to chase a hotter prospect comes along. Without knowing what and why, investment decisions are made on the basis of emotions.

As for the importance of actively managing equity investments, of the companies on the first Fortune 500 list in 1955 when Mr. Read was 32, 88% are no longer on the list. Some disappeared through mergers, others lost their way and no longer exist or have fallen into obscurity.

Is Your Information for Sale?

If you think you are safe from identity theft, you've either taken extraordinary precautions or you have your head in the sand. The escalation of consumer data lost through accidental publication, hacking, inside jobs, lost or stolen computers, lost or stolen media and simply poor security makes it more and more likely that your personal data could be for available for purchase on the internet.

One of the latest identity theft twists is electronically filing fraudulent tax returns. Victims can wait months and even years to have their refunds restored.

The average data theft goes undetected for up to seven months. That leaves consumers vulnerable long before the theft is announced. To protect yourself and your assets, at the very least you should take the following steps.

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Are You An Optimist or A Realist?

Every so often you run into the perfect quotes that sum up the choice in much better words than you have at your command. The following quotes hit at the core of the difference between a buy-and-hold approach to investing and active management.

"History has shown us that the stock market is a relatively safe bet over the long term because it has typically grown," Michaela Pagel, assistant professor of finance and economics at Columbia Business School.

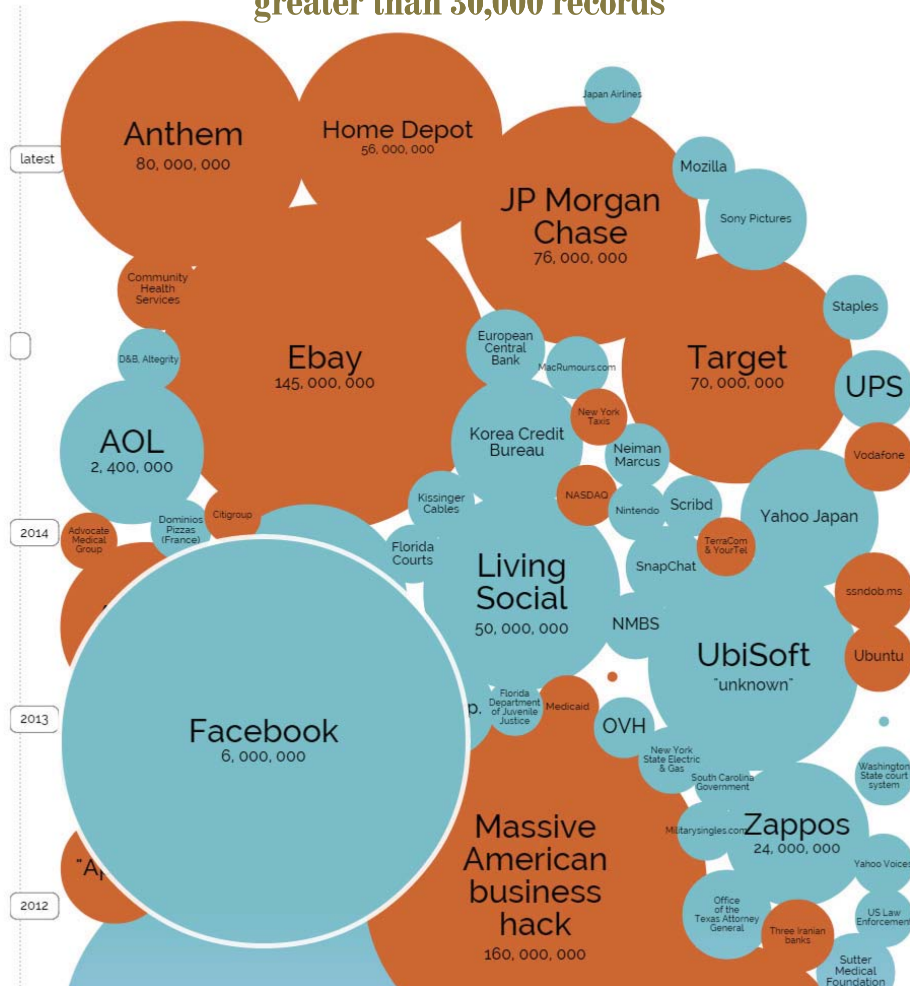
"History is not predetermined to proceed always in a progressive, ever-better direction." Daniel Henninger, editorial page deputy editor, *The Wall Street Journal.*

The first is the rationale behind buy-and-hold investing. The second is the rationale for active management. The two approaches offer a choice between believing that historical trends will continue into the future or accepting that life throws curve balls and there are no guarantees that the past will repeat.

Active management strives to adapt to changing market environments, to recognize increased risk and take steps to manage that risk. We may be optimistic about the future, but that doesn't mean we don't accept the reality that bear markets show little sign of disappearing in the future. Financial crises are the norm, not the exception. A prudent investment strategy isn't based on what has been, but what is happening.

Is Your Information for Sale? *— continued from page 1*

World's Biggest Data Breaches, Selected losses greater than 30,000 records



World's Biggest Data Breaches, Selected losses greater than 30,000 records (updated 5th Feb 2015) http://www.informationisbeautiful.net/visualizations/worlds-biggest-data-breaches-hacks/

1. Open all account statements promptly and review your transactions to make certain they are valid.
2. Set electronic alerts on your accounts that notify you of:
   - changes to your personal information
   - transactions above $200, including withdrawals, deposits and charges (you may want to adjust this amount based on your personal finances).
3. Avoid having your credit or debit card information stored by merchants for online purchases.
4. Request that your card provider change your account numbers if you suspect your information could be compromised.
5. Do not access your accounts online using open wi-fi networks, or even password-protected networks that are easily accessible, such as hotel internets.
6. Look for ways to limit access to your funds. This includes correctly setting personal exemptions on tax withholdings to avoid having excessive refunds due when you file your taxes.

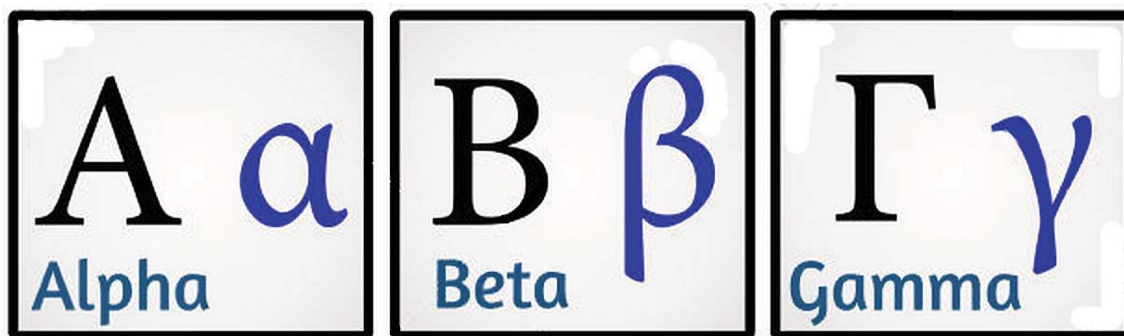
The one lesson that keeps coming through over and over is that consumers cannot depend on government or business to protect them from identity theft. You must be proactive in monitoring your accounts. While there are safeguards with respect to illegitimate transactions, they are limited. Fail to notice an unauthorized transaction on your debit card and your liability increases from $50 after two business days to $500 between 2 and 60 days and all of your account balance and any linked accounts if not detected within 60 days.

Credit cards offer better protection, but you may find the burden of proof that the transaction was not legitimate is on you, not the financial institution. The earlier you can detect fraud, the better your chance of avoiding damage.

If you believe your identity has been stolen:

1. Place a Fraud Alert with the three big credit reporting agencies: Equifax, Experian, and TransUnion. This alert makes it harder for fraudulent accounts to be set up in your name because the business must contact you and verify your identity before extending new credit. Caution: this alert lasts only 90 days. Set a calendar notice to renew it at the end of three months if you have not resolved your problem.
2. Order Credit Reports. By placing a fraud alert you are entitled to receive free reports. Contact the big three credit reporting agencies, Equifax, Experian, and TransUnion directly. Review your credit reports carefully to see if there are accounts you do not recognize and contact the issuing merchant and the credit reporting agencies immediately if you find a problem.
3. File an Identity Theft Report. An official Identity Theft Report gives you certain important rights to help you recover from identity fraud including having fraudulent data removed from your credit report and preventing the sale of fraudulent debt to collection agencies. You can do so directly on the Federal Trade Commission's website.
4. Review information on the FTC website for further steps you should take to minimize the impact of identity theft on your life. http://www.consumer.ftc.gov/features/feature-0014-identity-theft

Understanding the Greeks
Alpha, Beta, Smart Beta and now Gamma



The easiest measure of investment performance is return. But return leaves a lot of unknowns, in particular how risky was it to achieve that return and was excess return a matter of luck or skill? To answer those questions, two financial measures are commonly used – Alpha and Beta. But recently, two more measures have surfaced – Smart Beta and Gamma.

Beta is a measure of an investment's sensitivity to the market achieved by measuring the investment's volatility in relation to the market (or benchmark index) – which always has a Beta of 1.0. It attempts to explain how closely an investment's performance tracks the index and can thus be attributed to the market's movements. An investment with a Beta higher than 1 is more volatile than the market, while an investment with a low beta is less volatile and thought to pose less risk. An index fund typically offers "pure Beta" in that its performance is directly related to the market or asset class.

Beta explains how much of an investment's performance is due to the market. But what about performance that can't be explained by market exposure?

The excess return that a portfolio generates over its expected return is quantified using "**Alpha**," which reflects the manager's luck or skill. Positive Alpha is return realized in excess of the market or asset class return. Negative Alpha indicates that the manager underperformed the market or a specific benchmark index and may indicate a lack of management ability or the investment approach is currently out of sync with market trends. Because Alpha is a derivative of Beta, it also looks at the risk the manager assumed to achieve the resulting return.

Smart Beta is a relatively new term that looks at the volatility of an investment compared to alternative indexes. These indexes are based on tweaking traditional indexing by weighting stocks on metrics other than market capitalization. Cap-weighted indexes, such as the S&P 500, are most heavily influenced by the companies with the greatest market capitalization – the number of shares outstanding times share price. Price-weighted indexes, such as the Dow Jones Industrial, give more emphasis to higher priced stocks. Equally weighed indexes give each stock an equal influence on the value of the index. A book-weighted index would strive to give dominance to the stocks with the greatest underlying book value. The theory is that these indexes will provide a different level of performance that will enhance a portfolio.

In an attempt to explain what an alternative index is, Rob Arnott and Engin Kose of Research Associates proposed the following:

"A category of valuation-indifferent strategies that consciously and deliberately break the link between the price of an asset and its weight in the portfolio, seeking to earn excess returns over the cap-weighted benchmark by no longer weighting assets proportional to their popularity, while retaining most of the positive attributes of passive indexing."

Whether investing in these indexes is truly a "smart" option needs the test of time to answer. As a result, many investment professionals have proposed using terms such as "Alternative Beta" rather than "Smart Beta."

Gamma is a new measurement espoused by Morningstar to quantify the overall value good managers bring to a client's portfolio. Morningstar maintains that investors need to look beyond performance and volatility to consider the overall value a manager offers, including tax efficiencies, effective withdrawal strategies, risk allocations, and more. After all, says Morningstar, these decisions can have a substantial impact on the value of a portfolio to the investor.

The problem with Morningstar's definition of Gamma is that the Greek letter has been used for years in options trading. In that application, Gamma measures the rate of change for Delta (the sensitivity of an option's theoretical value to a change in the price of the underlying asset) with respect to the underlying asset's price.

The value of Beta, Alpha and the recently minted Gamma ratio is their ability to take valuation of a portfolio or manager beyond performance data. If index performance can be achieved at significantly less risk, that is significant. If outperformance can be demonstrated to be the result of systematic approach to investing rather than random chance, it makes a difference. And, if the advisor's recommendations enhance the after-tax and long-term payout from an account, that matters as well.

Winning in the Not-So Efficient Market

Based on the Efficient Market Theory, it is impossible for investors to outperform the market over the long run without (a) using insider information not available to the market, or (b) foreseeing the future. Perhaps the greatest proof that the market is anything but efficient are the individuals who have achieved the impossible by consistently outperforming the market.

Money magazine called Sir John Templeton "arguably the greatest global stock picker of the century" (January 1999). He was a pioneer in both financial investments and philanthropy, founding Templeton Mutual Funds and some of the world's largest and most successful international investment funds. The following maxims were published in Peter Krass' The Book of Investing Wisdom.

John Templeton's 22 Maxims for Investors

1. For all long-term investors, there is only one objective – "maximum total real return after taxes."
2. Achieving a good record takes much study and work, and is a lot harder than most people think.
3. It is impossible to produce a superior performance unless you do something different from the majority.
4. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.
5. To put "Maxim 4" in somewhat different terms, the only way to get a bargain in the stock market is to buy what most investors are selling.
6. To buy when others are despondently selling, and to sell when others are greedily buying, requires the greatest fortitude, even while offering the greatest reward.
7. Bear markets have always been temporary. Share prices turn upward from one to 12 months before the bottom of the business cycle.
8. If a particular industry or type of security becomes popular with investors, that popularity will always prove temporary and, when lost, won't return for many years.
9. In the long run, the stock market indexes fluctuate around the long-term upward trend of earnings per share.
10. In free-enterprise nations, the earnings on stock market indexes fluctuate around the replacement book value of the shares of the index.
11. If you buy the same securities as other people, you will have the same results of other people.
12. The time to buy a stock is when the short-term owners have finished their selling, and the time to sell a stock is often when the short-term owners have finished their buying.
13. Share prices fluctuate much more widely than values. Therefore, index funds will never produce the best total return performance.
14. Too many investors focus on "outlook" and "trend." Therefore, more profit is made by focusing on value.
15. If you search worldwide, you will find more bargains and better bargains than by studying only one nation. Also, you gain the safety of diversification.
16. The fluctuation of share prices is roughly proportional to the square root of the price.
17. The time to sell an asset is when you have found a much better bargain to replace it.
18. When any method for selecting stocks becomes popular, then switch to unpopular methods. As has been suggested in "Maxim 3," too many investors can spoil any share-selection method or any market-timing formula.
19. Never adopt permanently any type of asset or any selection method. Try to stay flexible, open minded and skeptical. Long-term top results are achieved only by changing from popular to unpopular the types of securities you favor and your methods of selection.
20. The skill factor in selection is largest for the common-stock part of your investments.
21. The best performance is produced by a person, not a committee.
22. If you begin with prayer, you can think more clearly and make fewer stupid mistakes.

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