

Ω THE OMEGA FINANCIAL GROUP

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MEMBER NASD & SIPC INSURANCE AGENCY DONOR ADVISED CHARITABLE ORGANIZATION

Opinions & Facts...

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309 W. 7TH STREET, SUITE 900, FORT WORTH, TX 76102-6996 • 817/335-5739 • 800/999-5739

Green Quote of the Day

“When two Bull elephants fight, the grass always loses.”

African Proverb quoted by Dr. Ted Kitchens, 3-30-2008

“Any questions?”

Recently a long-time client and friend asked Tom Hardgrove if we had been getting many phone calls concerning the current volatile markets.

Tom responded, “I’ve have had a few phone calls; however, most of our clients were wanting to know how we felt about the economy and their investments. None had been overwhelmed by the ups and downs.” With this, the client/friend said to Tom: “Well the reason that you haven’t been bothered is that your Dad, in his newsletters and on the phone has been saying the same thing for more than 15 years. I guess now people have figured out the way you guys advise really works.”

“What have we been saying?”

This exchange prompted us to scan the letters and *Opinions and Facts* we’ve published since the mid 1980’s. It’s really been longer than that, but that’s where our “scrapbook” starts. Sure enough it was very difficult for us to find anything that we’ve written that wasn’t universal or didn’t ring true for the long term investor. It seems that although change is inevitable, proven systems and investment fundamentals remain the same. “This time it’s different”, is a mantra that just doesn’t fly.

In this *Opinions and Facts* you’ll see some of the ideas we presented over the years. Of course, we realize that there are very few “original” ideas!

Quote of the Month August 1990

“If you wait until there are no problems, you’ll never make an investment. The wise time to buy shares is at the point of maximum worry. That is the time when you get shares at bargain prices.”

John Templeton

Chairman of the Templeton Group of Funds

(At that time Sir John was 77 years old, and his wisdom has continued to prove true.)

From the late summer 2005 came this column.

“Fortunately for us, the greater number of our clients were well positioned during the market downturn at the turn of this century (2001). They have educated themselves to the point that they have held - and even increased their mutual fund holdings during down times. This, of course, is the best time to do it. However, as we pointed out in our last *Opinions and Facts*, the toughest time to do it is when things are falling fairly flat and fluctuate in a volatile manner. People then begin looking for something that they dream about... an increase of 15% to 18% per year, which they enjoyed in most of the 1990’s. We have discovered after four decades of observation that the two major mistakes that investors make in making investment decisions is excess fear or greed. Either the investor makes the mistake or his advisor does. Which culprit are you trapped with? *Fear or Greed?*”

And from a letter in 2002

First, let's agree what real risk is. According to our friends at Capital Research and Management Company, most investors might define risk as follows:

"The permanent loss of money and the failure to reach long term investment goals."

"So what have you found that works, Joe?"

Step 1. Eliminate managers that haven't produced consistent long term investment results with low relative volatility.

Step 2. Learn about the investment approach behind the numbers. "You can't buy the past record, but you can buy the process" used to establish that record.

Step 3. Be sure the managers do their own research and operate globally. Buying other people's research is a crutch mediocre managers use.

Step 4. If you are concerned about the short term (quarterly or one year), don't invest with managers who operate on a long term view. In most cases the value of a company is not the same as the price of the stock. If your view is short term, you'll not be happy with long term managers.

Step 5. Be sure your managers are not participating in "their first Rodeo." We think their average tenure should be at least two decades.

Step 6. Don't over pay for management. We believe that charges of less than one percent of the assets being managed is quite reasonable. If you'd like more detailed information on our approach to investing, just call.

We'll be happy to send you a brochure that covers our philosophy.

And in a newsletter of 1988...

We believe that it takes in-depth research of companies by professionals to uncover the hidden gems of wealth creation and preservation. The long term view says not, "Where will this stock be in a year"? But, "Where will this company be in five years". That's the story of long term investing and it's what we've been saying since the 1970's.

The following column appeared in a letter written to our clients in February of 1972. (It's interesting how some things never change.)

"It's the finest thing in the world to have a hobby: which may be rug weaving, building a boat, making furniture in your basement shop or raising your own mink coat. There are many things the do-it-yourself fan is wise not to attempt, you would not doctor yourself when seriously ill, you would not fill your own teeth, write your own will or try to give your children a college education at home. These are all jobs for specially trained men and women – professionals. Investing, and the careful, intelligent planning for future needs – is seldom a very successful do-it-yourself project. Investment is our business...our knowledge and professional experience are yours for the asking."

Our Opinion (Sometime in 1998)

"One of our friends, who was formerly a broker here at Omega, sent us an e-mail which made us begin to think about the big difference between what people want and what they need. The general public *wants* the name of a great stock or mutual fund to buy. The *need* of course, is to sit down, examine their asset allocation and goals, and then decide what kind of investment might best suit their future plans.

“We’ve observed that many people simply want to beat the market under all conditions. But what they need is a portfolio that helps them advance toward their long-term financial goals, regardless of what the market does. The fluctuations of the market on a day-to-day basis have nothing to do with a person’s financial goals.

“One of the pitfalls of the information age in the technology revolution is that we all, in one way or the other, look for instant gratification. Prudent investing, as we’ve said so many times in these letters, is simply boring and tedious. Good investing requires in-depth and thorough research, and if you’ve ever been involved in research projects, you know that it is a very tiring proposition.

“That’s why we’re here. It is obvious that over the long haul, patience and in-depth research will rule the day. That’s why we will always point you to well educated and trained professionals.”



“YOU KNOW DAD. NOW THAT ELIOT IS OUT OF THE PICTURE I JUST MAY RUN FOR GOVERNOR.”

NOW BACK TO THE PRESENT

There’s a statistic that has come to our attention which has really changed our attitude about communicating with our clients.

Here is a fact: according to a *Lipper* report, the **average equity mutual fund** for the twenty years ending 2004, with the dividends and capital gains reinvested, gave a total return of 10.7% per year. For the same period of time with the distributions reinvested, **the average mutual fund investor** got a return of 3.7% per year. So why the discrepancy? The culprit was, as we have said so many times, either the mutual fund investor or his advisor. When the mutual fund investor wanted to sell his holdings (almost always at the bottom of a market!) the advisor did not convince him to hold his investment. When the investor wanted to sell 3 of the funds that he owned which were under performing his expectations, and buy the 2 higher performing funds that he held with the proceeds, the advisor agreed with him and let him do it. There could be scores of other reasons the investor saw 7% of the actual return of his fund go down the drain, but these are the two main reasons.

Trying to time the market and misallocating the portfolio caused the average mutual fund holder to under perform his own investment.

Mr. Barnum, Please “*Send in the Clowns*”.

Recently we came across a quote from our friend Carl Andersen, author of several books on investing. This quote came from his 1980 publication, *Seer or Sucker?*

Mr. Andersen writes:

“When Phineas T. Barnum ascended to the “great circus in the sky” in 1891, the United States had about $\frac{1}{3}$ of its present population, thus his famous “There’s a sucker born every minute” has now multiplied by 3! In terms of arithmetic that comes out to the creation of 4320 suckers each day, 30,240 per week, and over 1 million a year. My personal view, after 20 years of observing the saving and investment scene, is that Mr. Barnum put it conservatively at only one a minute.”

Remember Andersen said this 28 years ago.

Since Carl Andersen has also passed away within the last 5 years, he is not available to calculate what that number of suckers would be today, but rather than

spend a great deal of time on my calculator, I would say that number would probably be doubled to 2 suckers born every minute which means that somewhere (with the extended life expectancy) around 25 – 28 million “suckers” are out there. This is what has prompted me to consider where we might be today.

“Hedge Fund Forerunners?”

A Boston innovator founded the first successful real estate investment trust (REIT), in the early 1960’s. For a decade its shareholders prospered. Earnings, dividends, and the stock prices soared and the REIT became a fad, ammunition for the always poised Wall Street underwriting mill. (Nowadays of course, all the big investment banks have to do is to print some paper and pass it next door to their “in house” brokerage firm.) In the late 1960’s and earlier 1970’s the explosion of new REIT’s sponsors were counted among prestigious banks and high dollar investors. These investors flooded the construction markets with easy money, buying virtually all deals available regardless of *intrinsic quality or investment merit*. These trusts, because of the credibility of the backers, sold like tickets to a Tony Bennett concert.

“Sound familiar?”

As always, when easy money floods the marketplace it becomes too much of a good thing. Overwhelmed with easy money, these trust managers became hittable marks in the real world of risk. The REIT overkill of the early 1970’s is often forgotten as the 21st century rolls on. Lending money to unqualified borrowers and watching the Wall Street banks package those bad loans and sell them is one of the major causes of the situation our country has found itself in. These situations do not go away overnight, but since we do have a free market system and since we have that freedom to raise capital, however and whenever we can, it will take time and patience for the markets to adjust.

OUR OPINION

The crumbling of the wall between Banking and Securities has faded into an amalgamate which blended the two into an almost unrecognized entity. With the Federal Reserve pledged to maintain the safety of markets through oversight of bank holding companies, they now have opened up financing to a number of securities firms, through its discount windows. This is the warning bell that the wall has not only crumbled, it has turned to dust. When is a “bailout” not a “bailout”?

Remember the days when a banker made a loan and kept it on his books and didn’t have the accounting freedom to throw it away as an “off balance sheet item”?

While we would hardly find ourselves cheering the Super Regulators, we wonder what entity will end up regulating and supervising the “new” complex business models that trade in unregistered securities, and other shadowy investment vehicles: the Federal Reserve, the SEC or a new and costly bureaucracy?

Make no mistake. The greed of the big investment banks on Wall Street will come back to haunt them and this will affect free markets worldwide.

In spite of this, a free trading economy and capital markets can find new ways to continue to finance the growth industries, not only in the US, but worldwide. As the subprime mortgage package unwinds and hopefully, less greedy bankers emerge, we believe that our investors will hold on, add more to their portfolio and relinquish to our professionals the freedom to operate consistently as they have since 1934.

That’s our take. Yours is welcome.

Joseph E. Hawley
Tom Hawley
John Dickson
Sammy Bryant



“HEY, CHARLIE. GUESS WHAT? THEY WANT TO BUY OUR BEAR STEARNS STOCK FOR \$2.00 A SHARE!”