

Ω THE OMEGA FINANCIAL GROUP

OMEGA SECURITIES, INC. • OMEGA II • THE OMEGA FOUNDATION, INC.
MEMBER NASD & SIPC INSURANCE AGENCY DONOR ADVISED CHARITABLE ORGANIZATION

Opinions & Facts...

Spring 2007

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Hedge Fund:

A very specialized, volatile, open-end investment company that permits the manager to use a variety of investment techniques usually prohibited in other types of funds. These techniques include borrowing money, selling short, and using options. Hedge funds offer investors the possibility of extraordinary gains with above-average risk...currently not subject to regulation by the SEC, the NASD or other Federal regulating commission...hedge funds can be either long or short assets and may enter into futures, swaps, and other derivative contracts...because of the substantial risks involved in unregulated, complex, and leveraged investments, hedge funds are normally open only to professional, institutional or otherwise accredited investors.

“WE’RE FROM THE FEDERAL GOVERNMENT HERE TO HELP YOU.”

The President’s Working Group on Financial Markets, a panel formed with experts in the regulatory business has come to the conclusion that there is no need for new hedge fund regulations. This indicates, at least in the minds of the panel members, that the industry can monitor itself. This panel included the Department of Treasury, the Federal Reserve Board, the Securities and Exchange Commission and other agencies. They say that the hedge fund lenders and investors can adequately take care of themselves by adhering to a set of non-binding principles.

Jim Pivia, in an *Investment News* editorial, asked the question: “Do these people also believe in Santa Claus, the Easter Bunny and the Great Pumpkin?” Mr. Pavia thought that if the panel felt this way maybe it would be a good idea to “let prisoners use the buddy system and lock each other into their cells at the end of the day.”

“...with that made completely clear...”

While we are certainly strong believers in self regulatory organizations, (SRO’s) we do believe that it’s rather short sighted to think that you’re able to invest in a hedge fund with as little as \$25,000 or \$50,000. Interestingly enough, this President’s Working Group on Financial Markets report comes in the wake of the failure last fall of Amaranth Advisors LLC, in Greenwich, Connecticut, a hedge fund that lost \$6.6 billion on natural-gas trades. That same day Bear Stearns, Inc. was ordered by a Federal judge to pay \$160 million to investors in another hedge fund doing business with that fund for failing to detect that it actually was a fraud.

“The right way”

Omega Securities is very fortunate in that most of our clientele, rather than investing just to “make money”, have goals. Rather than “performance” they want “results”. Results aren’t attained through short cuts. The people who make most of the money with hedge funds are the hedge fund managers. When you charge 2% of the assets under management and 20% of the profits you don’t look for long term investments, you look for short term, highly leveraged ideas.

“Easy...big fellow...stay cool!”

Easy money and a patient stock market have brought about 9000 hedge funds with approximately \$1.4 trillion in assets to the global economy. Money from institutional investors and **pension funds** has flowed into the hedge fund market in search of better investment yields. If you knew your retirement fund had 10% to 25% of its assets in high risk hedge funds would you feel comfortable?

Full disclosure and transparency are the hallmarks of good investing. We hope our friends haven’t made the mistake of getting on to a high speed freeway without knowing the sharp curves ahead and the cliff which will sooner or later appear...and a parachute won’t help.

“IF YOU DON’T LIKE THIS ANNUITY, THEN HOW ABOUT THIS BEACH HOUSE IN NEW MEXICO?”

Well, now the Massachusetts securities regulators are going after some brokerage firms in that state alleging they are selling high priced annuities with hidden commissions and fees.

Question: So what else is new? With the swelling in the ranks of Seniors continuing, other schemes will surely surface.

The regulators alleged that Massachusetts resident Michael Delmonico held seminars and social events at senior centers, while he sold unsuitable investments and convinced seniors to invest through him by hailing his designation as a “Certified Senior Advisor” with a seal of approval from “The National Ethics Bureau.” This “Bureau” had issued the certificate to him knowing he had been fired from a previous job for selling products his employer didn’t approve, the state said. In case you don’t know what The National Ethics Bureau is, its website describes it as a “One stop source to verify the business ethics of insurance and financial advisors.” We hope this is not an oxymoron.

“Here’s the story...”

The complaint alleges that after Mary Ann Saint Clair, a 72 year old Massachusetts woman, turned her finances over to Mr. Delmonico – whom she met at a senior seminar he held in her home town, he used her money to buy an annuity that had a 12 year lock up period and a penalty for retrieving money early. Naturally he did not disclose these facts.

This is nothing new. Many people come into our office here at Omega who are retired and have plenty of time to attend “Free Lunch and Free Dinner” seminars, where many people who claim to be senior advisors make their pitch mostly on indexed annuities.

In fact we see newspaper advertisements that indicate the advisor whose picture is shown is a “Senior Advisor”; however, he does not give his address - only a phone number. While we haven’t checked on it, the phone number may be a phone booth or a disposable cell phone.

Most of the Senior Advisors we’ve encountered are insurance salespeople, since that industry is not as regulated as the securities business. The National Association of Securities Administrators (NSAA) however, also found that **unregistered securities, variable annuities, and indexed annuities** marketed by securities brokerage firms were most frequently involved in investment fraud schemes aimed at seniors.

Unlike legitimate NASD representatives, the insurance “Senior Specialist” in many cases does not give the purchasers of the annuities complete information about the real return of the product; the back end penalties and of course, how the agent is paid.

Help your Senior friends. If you appreciate the complete disclosure Omega gives and the service you receive – send them to us. We’ll continue the straight talk we’ve done since 1964.

“HEY AL... HOW CAN I MAKE A GREEN FOOTPRINT?”

A recent *Wall Street Journal* Op Ed piece gives us some interesting information. We discover that the United States Government is the largest single consumer of energy in the United States. It’s also (as in most other fields of consumption) one of the most inefficient energy users. The Journal points out that according to a 1999 report by the Alliance to Save Energy, “The Federal Government consumes about 32% more energy per square foot than the nation’s building stock at large.” They estimate that this inefficiency costs tax payers an estimated \$1 billion a year.

“Senator Barbara Boxer of California suggested that the first step in reducing greenhouse gases would be to require that Federal buildings use more efficient light bulbs and ask Federal bureaucrats to turn off their computers at night”, continued the Journal. Another bit of interesting information is that the cost of **running** the Department of Energy costs \$22 billion a year. Between 1980 and 1996 the *Wall Street Journal* reported that \$10 billion was wasted on programs that were “terminated before completion.” Incidentally, the department of energy has

a website that features a game for kids which costs taxpayers \$325,000. Oh, mercy!

“Oink...oink...oink.”

Now here’s the final kicker: according to the article, the Senate Government Reform Committee has identified more than \$200 billion of budget savings, enough to easily balance the budget, by eliminating redundant and wasteful federal activities. Pork anyone?

Barbara Boxer might eclipse Al Gore as the Democrat who saved the planet. However, we think Ms. Boxer is probably moving more towards the center than Mr. Gore.

“WHEN WAS THE LAST TIME YOU VOTED TO BE TAXED?”

A cry for a state income tax is sometimes heard through editorials of left-leaning newspapers around our state. Texas of course, is one of those states that has no income tax. Here is a little tale of two states that recently adopted an income tax: New Jersey and Connecticut.

Quoting from the *Wall Street Journal*: “As recently as 1995 New Jersey had neither an income nor a sales tax, but managed to balance its budget every year. Now it has both taxes – its income tax is the 5th highest in the nation – but the state is facing what Stateline.org calls a “staggering budget deficit.” Allied Van Lines reports that the Garden State is now one of the leading places for people to flee.”

Connecticut adopted income tax in 1991. A recent New England publication reveals that the tax has been a calamity. The state has ranked last in employment growth since 1991, losing 240,000 of its native born citizens between 1991 and 2002 according to the story. No other state has since enacted an income tax, and lawmakers in Georgia, Missouri and South Carolina say Connecticut is now the model for how not to run a state economy.

“Wake up Billy Bob!”

When will we get it into our heads that in a free market economy by giving individuals and companies the freedom to make their own decisions in what to do with their money works, will work and has always worked. While it is important for the government to act as protectors of its people (hedge funds, mutual funds, securities and insurance regulations, our borders) excess taxes are nothing but a feeding trough for bureaucracies.

“So what do you think?”

No matter what we hear and read from many news services, we believe that the Bush tax cuts of 2003, and especially those cuts in capital gains and dividends, have kept our economy buzzing. While the easy money moves by the Federal Reserve has helped, in our opinion, it has gone on too long. As long as money is available to easily borrow, governments will spend it. Sooner or later the piper must be paid.

We've seen that the free market has and will cover a multitude of sins, but as we've said in these pages before, it does no good to cut taxes unless you cut spending.

“AND FINALLY...spring is here...and young men's thoughts turn to...baseball!”

Since most of our readers know that John Dickens, Tom Hardgrove and I descend from a long experience in the game of baseball, we hope you'll enjoy this little baseball gem.

There is a term we learned in baseball: “Run it Out”. This is used to describe what a player at bat should do when he hits a pitch. Although he might be sure it will be caught in the outfield or infield he should still run as hard as he can to first base, just in case the defensive player drops the ball.

Recently we learned that there are also other reasons to “Run it Out.” I was at a college baseball game a weekend ago sitting next to an Arizona Diamondback Talent Scout who was using a radar gun checking the velocity of the pitches by the pitcher. Every time a runner would hit the ball anywhere he would produce a stop watch to time the young man running to first. During one inning I turned to the scout who had just checked a player going to first and I said, “Can that kid run?”

The young scout answered, “No, not really”. And I said, “What do you mean?” He replied, “Well, I timed him. The problem, it was a fly ball to the outfield which looked like a sure out and he really slowed up before he got to first base”. I said: “You mean he didn't run it out”. He nodded “Yes”.

I wondered to the scout: “Do you think he would have run as hard as he could if he knew you were up here timing him?”

The scout responded, “Of course he would” and then the young scout made a comment to me which opened my eyes to a universal truth.

“If he had run it out, I'd have made that notation in my report...probably come see him again. But since he didn't...I made that note in my book.”

He said, “Mr. Hardgrove, let's say a player has 4 at bats in a game and the average speed down the line from home to first is 4.5 seconds (which really isn't fast). If he runs as hard as he can... with 4 at bats, that's 18 seconds of hustle per game”. The young man then said something that astonished me.

“You know, I don't know how much money you make, but I do know that the minimum wage in the Big Leagues is around \$380,000 per year. Would you work as hard as you could for 18 seconds a day if you could make the money that you make now?”

Wow! Did this guy ring my bell!

What an observation! The following Monday I came back to the office and spoke to John, Tom and Tammy Bryant and asked them the question.

“Why are we having the success we are having in our business?” They answered, “Because we give good service; because we treat our clients the way we want to be treated; we completely research the fund companies we use” and - any number of other positive attributes they could think of. My response was, “What you're really saying folks, is that we always try to ‘Run it Out’ no matter who's checking us out.”

To end this little story we hope that no matter what your occupation is or what your hobby is, that you'll always have a tendency to “Run it Out”.

We certainly will.

Thank you for your continued business, confidence and trust. And we promise to always “Run it Out” for you... and us.

That's our baseball tale. Play ball!

Joe John Tom Tammy



“YOU KNOW, THE IDEA OF TAXATION WITH REPRESENTATION DOESN'T APPEAL TO ME VERY MUCH, EITHER.”