



For our first newsletter of 2016, we present you with our top ten favorite investors trivia questions. We hope the list is interesting, it is also intended to give insight.

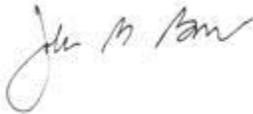
- 1) What is the oldest company in the Standard & Poor's 500? A: Lorillard. Lorillard was founded in 1760 in New York City, though now headquartered in Greensboro, North Carolina. Lorillard was the third largest cigarette maker in the U.S. with annual sales of \$6 billion until they were taken over by another tobacco company, Reynolds American this past June. The company started trading in 1899. If an investor purchased shares in Lorillard on January 11, 1964, when the Surgeon General of the United States, Luther L. Terry, warned that cigarette smoking was linked to cancer, an investor would have lost 5% the day of the announcement. But if they held on to the stock until it was taken over by Reynolds, they would have increased their investment by more than 100 fold. That is, they would have multiplied the value of the investment by 100 times! Those results assume that an investor would have held on to Lorillard while it was majority owned by Loews, a conglomerate, from 1968 until 2008 when it became independent again.
- 2) What is the smallest company in the Standard & Poor's 500? A: Diamond Offshore Drilling was the smallest company as of the end of 2015. Its market cap was just under \$3 billion. Diamond owns a fleet of oil drilling platforms and ships which it leases. The index is weighted so the largest company, Apple, garners 3.7% of the index weight while Diamond is weighted at less than one tenth of a percent of the index. Coincidentally, Diamond Offshore is now part of Loews in the sense that Loews is the majority owner of the company.
- 3) Which cartoon creator has been the most critical of the investment profession? Dilbert creator, Scott Adams, has been highly critical of investment professionals, including using Dilbert himself to criticize the industry. In the newly released book, "Wall Street Potholes," by Simon Lack, Adams is quoted as saying "the biggest risk to the personal investor is the individual giving the advice." That quote comes from chapter 8, which Simon asked me to write. In the chapter, I explain that the financial advisory profession is one of the newest professions in the industry, dating only to the early '70's, not long before I started in the business. And yes, Adams is right; the profession has a long way to go. I hope you buy the book and read the chapter to find out more.
- 4) How many financial advisors are there in the U.S.? A: Over 500,000, if you count how many securities licensed professionals there are. Less than one third of those professionals have a designation indicating that they are explicitly a financial advisor. (Also from my chapter in Lack's book)

- 5) How much does home country bias hurt an investor's portfolio? A: Nothing, if you live in the U.S. Over the last 10 years, the U.S. has been the best place to invest with returns of 6.94% as a measure by the S&P 500 compared to foreign stock returns of 2.81% as a measure by the MSCI EAFE. In the previous 5 years, however, investors who chose to invest only in the U.S. made almost 5% less per year than international investors.
- 6) The current hot ticket on Broadway is Hamilton. What position did Alexander Hamilton hold in George Washington's first cabinet? A: Secretary of the Treasury. Hamilton's first job was to unify the states' financial operations into the operations of the U.S. Treasury. There were many that were wary of a strong Federal government but Hamilton knew that one of the things that led Great Britain to world dominance was that country's use of finance. Great Britain was the first to create a currency that became the reserve currency of the world. The U.S. now enjoys that privilege and has since the end of World War I. We should be careful not to abuse the privilege. In Barry Eichengreen's book, "Exorbitant Privilege," he explains what a wonderful privilege it is for us, with the dollar being the reserve currency. He points out that it is a big help in financing our deficit. But he concludes the book warning of a dollar crash, writing that "the only plausible scenario for a dollar crash is one in which we bring it upon ourselves."
- 7) Which U.S. historical figure, who appears on our currency, said; "An investment in knowledge pays the best interest?" A: Benjamin Franklin, who also said, "A penny saved is a penny earned." Apparently not enough Americans agree with the second quote. According to the Journal of Financial Planning, 70% of Americans have not saved enough for retirement and will have to cut their standard of living when they retire. As we like to say, they will be eating tuna fish and spaghetti and staying at home.
- 8) What tax change led Newsweek to put on their cover "How to Ease the Squeeze?" A: The Tax Reform Act of 1969, signed by President Richard Nixon, instituted the alternative minimum tax, otherwise known as "AMT." AMT was originally drafted because it was disclosed that 154 tax payers earned more than \$200,000 and paid no income tax.¹ Today, more than 5 million U.S. taxpayers are losing deductions because AMT has not been adjusted for inflation.
- 9) What hangs on our wall in our conference room in a 3 foot by 1 ½ foot frame? A: A bearer bond issued by New York Central and Hudson Railroad. Bearer bonds are owned by the person holding them, like currency. No proof of ownership is needed. They have been banned by the government because they were used by those who wanted to hide their wealth – tax evaders and drug dealers. The New York Central and Hudson Railroad issued our bond in 1898 maturing in 1998 but there remain numerous coupons because they defaulted. The owner would literally clip the coupons from the bond and bring them to the bank where the bank would have to pay \$17.50. The coupons have a due date on them and cannot be cashed before the due date.
- 10) Who said "In preference to farming one might seek gain by commerce on the seas, were it not so perilous, and in money lending, if it were honorable...How much worse the

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money lender was considered by our forefathers than the thief.” A: Cato, the famed political statesman of Rome. Since he died in 134 BC, we know that money management has been going on for over 2200 years.

We look forward to being at your service in 2016 and will do our best so that you consider us to be honorable money managers and financial planners. Let’s hope we all have a very profitable year.



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¹*Taxation, Staff of the Joint Committee on Internal Revenue. "General explanation of the Tax reform act of 1969, H.R. 13270, 91st Congress, Public Law 91-172." 03 12 1970. 30 12 2015*
<https://archive.org/stream/generalexplanati00jcs1670/generalexplanati00jcs1670_djvu.txt>.

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