

# TUVE AND FRIENDS

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QUARTERLY PUBLICATION

## *Insights from Your Advisors*



Mathew D. Driscoll, CFP  
And  
John S. Tuve, CFP



Dear Friends,

We are sure you have caught wind of the headlines relating to the sub-prime loan issues we are facing. The amount of leverage in “hedge” funds and many of the big banks has caused some serious dislocations. Also, we have had bad actors – some secondary mortgage companies that have not allowed folks to refinance their first mortgages, primary dealers that have backed away from supporting auction rate securities markets, predatory lenders, etc.

The scope of this problem also caught the Treasury and the Federal Reserve (Fed) by surprise, but they are catching up fast. The Fed has cut rates sharply. They have also injected more than \$60 billion into the banking system and announced recently that they are expanding that program by another \$100 billion. Overall we think the Fed is doing the right thing. They do have a responsibility as “lender of last resort” to restore order to the banking system now, and then to sort out the innocent from the guilty later. The Fed has nearly \$1 trillion in financial assets, so there is no lack of firepower.

Washington has moved quickly with the short-term fiscal stimulus package. Many of you should be seeing tax rebate checks by May.

All this turmoil in credit markets, continued increases in oil prices and the psychological impact of the scary headlines has slowed the economy. Real GDP rose 3.8% and 4.9% in the second and third quarters of last year, but was up only 0.6% in the fourth. In March we got an employment report that showed a 63,000 decline in payroll employment in February, following a 22,000 decline in January. At this point it looks as though GDP growth will be in the +0.5% to -0.5% range in the first quarter, with another round of credit turmoil, housing declines and sky-high oil prices placing a big burden on the economy. Our two biggest concerns have worsened – oil prices are still rising, and the dollar exchange rate continues to fall. In both these areas we think government policy has been poor. So, while we still think we will avoid recession, the odds are rising.

However, it is important to maintain perspective. March 6th the Fed released data for the nation’s balance sheet for the fourth quarter. While this vast compendium of data shows trouble in banks, it also shows great areas of strength. U.S. household net worth dropped \$533 billion in the quarter, but still shows a rise of \$1.9 trillion over the last four quarters to a whopping \$57.7 trillion. U.S. non-financial corporations increased net worth by \$1.8 trillion over 2007 to \$16.1 trillion at yearend. At that point their net worth was 33% above their aggregate equity market value, and their debt to net worth ratio fell to a 22 year low. Finally, when you hear people throwing around big hypothetical numbers like “\$500 billion in bank write-downs”, remember that \$500 billion amounts to 3% of the \$15.8 trillion in financial sector debt.

As we have said before, in times like this, investment decision making gets tough and time horizons shrink. While we cannot say whether this market turmoil will be long-lived or not, we do believe that the actions being taken by the Fed will turn things around. And we think bailing out of some equity sectors that have been, in our opinion indiscriminately hit (technology, healthcare and exporting industrials), or going to cash would likely be a mistake. As always, please call us with any questions or concerns.

Regards,  
John S. Tuve, CFP  
Mathew D. Driscoll, CFP



## *Discipline: A Key To Success In Business And Investing*

Over the years we have been privileged to work with many successful clients. These clients come from diverse backgrounds. We always like to ask them about their success and find out what they feel has enabled them to be so successful. What we have observed is that these successful people tend to be disciplined and goal oriented with the end in mind. It is the small things that help them reach the next level.

In life and investing, the difference between great results and mediocre results is a matter of inches. For example if you look at the top money earners on the PGA tour for 2007 you see that Tiger Woods tops the list with a relative unknown by the name of Michael Boyd further down the list. The average score for Tiger Woods was 67.79 per round compared to 72.03 for Michael Boyd. That is about 6% difference in score. However the difference is their winnings was much wider. Tiger Woods earned \$10,867,052 compared to \$126,839 for Michael Boyd, over an 8,400% difference. As you can see a small advantage can have a significant impact on your results.

The mindset of successful people can also be applied to investing. Many investors achieve below average investment returns and consequently fail to reach their financial goals, because they lose sight of their goals and fail to exercise discipline. This is especially true during volatile markets like we have experienced recently.

To better understand what we are talking about, let's look at a study conducted by Fidelity Investments. Fidelity conducted a study on the performance of its flagship Magellan mutual fund during the tenure of its famous manager Peter Lynch. Peter Lynch ran

the Fidelity Magellan fund from 1977-1990 delivering an astonishing 29% average annual return during his tenure. Despite his remarkable performance while running the fund, Fidelity found that the average investor<sup>1</sup> actually lost money during his 13 year tenure. How is this possible? According to Fidelity, investors would run for the doors during periods of poor performance and come rushing in after periods of success. Such behavior, commonly known as performance chasing, is something that affects the great majority of investors (individual and professional alike) and is one of the reasons that many investors never experience the investment returns they expect.

We can see that investor performance like that mentioned above is not limited to the investors in the Magellan fund. According to a research study conducted by DALBAR from 1985-2005 the S&P 500 index (a measure the 500 largest US publicly traded companies) returned 13.2% annually while the average stock mutual fund investor<sup>2</sup> earned only 3.7% per year over the same period of time. Here again we see that investors are often their own worst enemy.

How does this 9.5% annual difference translate into dollars and cents? Let's use a hypothetical example in which an investor had a \$100,000 portfolio in 1985 and earned the average investor return studied by DALBAR<sup>3</sup> over the 20 year time period. The investor's portfolio would have grown to about \$206,811. On the other hand the same investment made into the stocks that make up the S&P 500 index would have grown to about \$1,193,791. An astonishing \$986,000 difference.

Unfortunately it is not only individual investors that are susceptible to this sort of undisciplined behavior. Profes-

sional money managers and advisors also exhibit many of the same behaviors. We can observe this behavior from the fact that the average stock<sup>4</sup> mutual fund manager, as defined by DALBAR underperformed the S&P 500 index from 1984-2002. During this period the professional money managers averaged a total return of 9.3% per year compared to a total return of 12.2% for the S&P 500. Underperforming by nearly a 3% per year over the 18 year period studied.

If a lack of discipline is a major contributor to poor investor performance, what steps can investors take to help instill self discipline? More importantly how should investors use this information to their advantage?

In designing an investment strategy, it is critical to develop an approach that is not dependent on short term market behavior. Additionally we want to design an approach based on scientific research and facts that remove as much emotion as possible from the equation.

The first approach to consider adding to your portfolio strategy is indexing. What exactly is indexing? Index investing is an investment approach that seeks to mirror the performance of a specific benchmark or index. Common examples are the Dow Jones Industrial Average, S&P 500, or Russell 2000. These indexes are very easy to replicate and because there is little human decision making involved in selecting specific holdings and the costs can very low. For example a fund trying to replicate the S&P 500 simply buys the 500 largest publicly traded companies in the same proportions as the index itself.

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## Personal Notes from Your Team



JOHN & BEV

We got a little break from the wonderful winter we have had this year, by attending some educational meetings in some warmer climates this February. One of our trips took us to Florida, so we were able to visit Nicole for the weekend. I ran my second marathon of the year, in Ft. Lauderdale that weekend. Nicole's friends, along with Nicole and I ran the Disney Marathon in January. WE ALL FINISHED!! That is always my goal. That was my first marathon for this year. My goal is to try to run a marathon once a month this spring through the fall. It will be awhile before Nicole runs another 26.2 mile marathon. She finished with a good time even though she apparently had a torn ACL, MCL and meniscus in the right knee and tendonitis in the left knee. OUCH!

Dawn is enjoying her art classes at Iowa State and keeping busy. She is playing with the Des Moines women's rugby team this year. After all those years of watching Nicole play rugby, and now Dawn, we finely understand the game a little better. We wish Dawn would have played Soccer, but she fell in love with rugby like her sister. It's a pretty ruff sport!!

Stanley did not do basketball this season, so we had a little break from sitting on bleachers. Soccer practice has started, however, so we will be spending time watching the boys play. We like watching soccer because it is constant moving up and down the field and the clock doesn't stop.

Beverly has been busy facilitating some Weight Watcher meetings at various business locations. She says she is really enjoying it and becoming more comfortable being in front of people.

We hope you all have a wonderfully warm spring.



MATT & MARY

Our Liam turned two at the end of March. It is hard to believe it has been two years already. The time has passed so quickly. Liam is already starting to speak little sentences and knows exactly what he wants. At long last that beautiful red hair is really starting to show. We are looking forward to getting outside after the long winter. Mary and I got new bikes this spring and we are excited to get back on the bike trails as soon as they open; and Liam got a swing set for his birthday. So when the nice weather comes we should be ready to roll. Besides that we do not have much to report. We hope you all have a wonderful and enjoyable spring!



SHARYL WEICH

This is a picture of the snow in our driveway just a few weeks ago! My husband, Sam is the public works director for the city of La Porte, so he was extremely busy this winter and probably more anxious than most to see the snow melt! We spent most of the winter running all over the state, attending Nick's 6<sup>th</sup> grade basketball tournaments. Nick just turned 12 and he and older brother Keith have a total of twelve snow days to make up this school year. As a result, I'm afraid they've gotten a little too used to sleeping in. Keith, 14, had the opportunity to participate in a play this month, "Beauty & the Beast", in which he thoroughly enjoyed himself. He is now involved in track for the spring semester, so we have been attending lots of track meets. In the mean time, the Weich family is hoping for nice springtime weather after this long winter.



MICHELE FAUBEL

What a winter it has been. I am definitely ready for spring. Here is what has been going on in the Faubel household. Logan, age eight, will be start-

ing soccer through the city league. He has missed quite a lot of school here in Dubuque so it will be interesting to see when their last day of school is.

Tamra, age 4, is getting ready for her dance recital and is very excited about her "big show". My husband, Andrew has been busy flying all over. The winter months were a little slow but they are really starting to get back to being busy.

I have been busy keeping up with the kids' schedules as well as trying to get ready for baby Faubel coming here in May. Hope you all have a wonderful "snowless" spring.



JULIE KRUGER

This picture was taken beside one of the drifts along the gravel road by our house. It has been quite a winter; I hope everyone came through in one piece. I don't have much to report since the last newsletter as I broke my leg in October and was pretty much a captive all fall and winter. I'm feeling much better now that I no longer need crutches, but it was a little difficult getting around on the ice and snow! My husband took me to work for quite a while and it was nice to be able to ride together every day. Our family is doing well and keeping busy. We're looking forward to another grandchild to love and spoil later this year. We also hope to get out more often once the weather is finally nice.



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### Attention All Cooks!

We are in the process of compiling a collection of our client's favorite recipes to be included in a recipe book. Please send one or more (there's no limit) of your favorites by July 15th, to:

**Tuve Investments, Inc.**  
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Please be sure to include your name, address and phone number.

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This strategy has three major advantages when compared to traditional active money management practiced by the majority of mutual fund and pension managers. The first advantage is cost. According to Lipper the average Large Cap actively managed mutual fund costs about 1.4% a year to operate as compared to .37% compared to the average large cap index mutual fund. This cost advantage is before comparing tax efficiency and turnover. The second advantage is performance. Over the twenty year period 1986-2005 only 18% of large cap stock fund managers beat the S&P 500 index.<sup>5</sup> Finally indexes if broadly diversified are not prone to the human desire to shift the portfolio into the best performing sectors of the day and chase performance. Keep in mind that market risk is prevalent in employing this strategy, since fluctuation of the underlying securities in this market is constant.

Another approach that can help instill investment discipline is an approach known as structured investing. These strategies are based on mathematical formulas that are less susceptible to emotional errors such as those explored above. This approach can be explored through a variety of investment vehicles including unit investment trusts, exchange traded funds (ETF's), separately managed accounts, and mutual funds.

Structured investment strategies seek out investments that meet strict criteria to determine when to buy and sell. Examples of these criteria include price to earnings ratios, price to sales, or accelerating earnings growth. Again with this approach costs are often relatively low, but come in a wide variety of choices.

When designing your investment and portfolio strategy it is important to keep several things in mind that may improve your long term results.

1. Avoid fads. Don't get sucked into the latest hot investment of the day.
2. Diversify, Diversify, Diversify. You've heard many times before, yet many investors often forget this

cardinal rule.

3. Don't time the market. Missing a few days of market performance can greatly hurt your performance. Just ask the shareholders in the Fidelity Magellan fund.
4. Risk and return are related. Remember to balance your desire for returns with the amount risk you are willing to accept. There is no free lunch. More potential upside requires more risk.

Implementing a few of the simple strategies outlined above may help instill investment discipline and can potentially have a profound impact on your investment results.

- 1-Fidelity calculated the average shareholder return based on weighted average buy/sell data
- 2-DALBAR data based on weighted average fund flows for all equity funds monitored by Lipper
- 3- DALBAR data based on weighted average fund flows for all equity funds monitored by Lipper
- 4-Average stock mutual fund calculations based on Lipper equity fund data using weighted average fund flows
- 5-Source A Random Walk Down Wall Street by Burton Malkiel

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*Mutual funds are offered with a prospectus. Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read the prospectus carefully before investing.*

*Time periods illustrated assumes all income is reinvested.*

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