



MALLARD

ADVISORS, LLC

THE MALLARD FLYER

**WILLIAM D. STARNES – MANAGING PARTNER –
FINANCIAL PLANNING DIVISION**

**PAUL S. BAUMBACH – MANAGING PARTNER –
INVESTMENT ADVISORY DIVISION**

1041 VALLEY ROAD, HOCKESSIN, DE 19707
(PH) 302-239-1654 - (FAX) 302-397-2675
BILL@MALLARDADVISORS.COM

273 EAST MAIN STREET, NEWARK, DE 19711
(PH) 302-737-4546 - (FAX) 302-397-2675
PAUL@MALLARDADVISORS.COM

Inside This Issue

April 2007

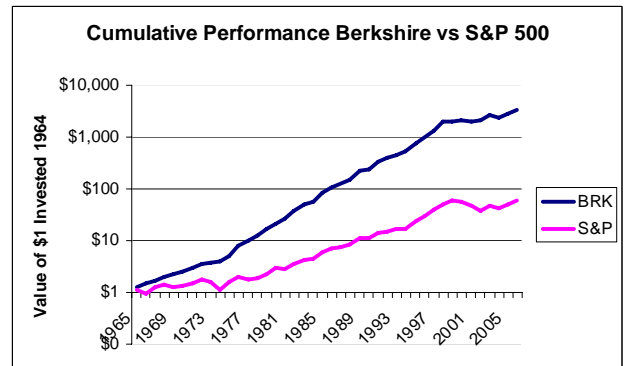
Buffet TidBits	1-3
Announcements	1
Allowance	3
The Harvard MBA: A Funny Story	4

Buffet TidBits

Paul S. Baumbach

This is the eleventh time that I've profiled Berkshire Hathaway's annual report, written by noted investor **Warren Buffett**. I chose Buffett due to his remarkable history. Unlike most talking heads on television, Buffett is more concerned about actions than words. When he speaks, it is to enlighten the rest of us, not to hear himself speak. And there are good reasons for us to listen.

In the past 42 years he has led Berkshire to more than double the annual results of the S&P 500 (22% annually versus 10%). Through the magic of compounding, doubling the annual returns over 41 years means that **Berkshire has outperformed the S&P by more than a factor of 55.**



Berkshire is fundamentally a holding company, and includes substantial shares of public companies such as American Express, Coca-Cola, Procter & Gamble, and private companies in the insurance industry (including GEICO and

General Re) and other industries (MidAmerican, Shaw Industries, Fruit of the Loom, Flight-Safety, International Dairy Queen, Pampered Chef, and NetJets). Many of its investments are funded with the tremendous 'float' that its insurance operations generate.

Buffett Nuggets—Warren Buffett scatters some good **Continued On Page 2**

Notices

Paul's Schedule / Newark Office:

Paul will likely attend the NAPFA National Conference in Chicago from May 2nd to the 5th.

Paul and Pam have tentative plans to travel to Europe with their son Mike for two weeks in late June after his high school graduation.

Bill's Schedule / Hockessin Office:

Bill will be out of the office Monday, April 16th, Monday May 28th (Memorial Day), and June 18th to the 21st to go camping in Jim Thorpe, PA.

Office Closings:

Both offices will be closed Monday, May 28th for Memorial Day.

Next Newsletter:

The next newsletter is expected to be mailed in early July 2007.

Mallard Announcements

Changes From TD Ameritrade

Over the next couple of months there are changes that you will now see as a result of the TD Waterhouse and Ameritrade merger. First, all account numbers will change by adding a 0 at the end and changing the first number from a 5 to a 9. Second, you will receive two statements in May—one current statement and one of the new statements. Third, in June you will begin receiving only the new monthly account statement. Finally, this merger will result in two 1099's being generated in 2007.

Money School Presentation

Paul will be presenting a seminar for the Delaware Money School on Tuesday, June 5th from 6:30-8:30pm at the Newark Senior Center on *Juggling Retirement Accounts: Establishing a Smart Withdrawal Plan*. Call the office to register or go to www.delawaremoneyschool.org.

Buffett TidBits...Continued from page 1

down-home wisdom throughout his annual letter. A substantial portion of Berkshire's operations are in the insurance area, in which pricing (how much you charge someone to cover a risk) is critical. 'Appropriate prices don't guarantee profits in any given year, but inappropriate prices most certainly guarantee eventual losses... Our behavior here parallels that which we employ in financial markets: **Be fearful when others are greedy, and be greedy when others are fearful.**' It is far easier to say this than to do this, and there is no guarantee that you will be quickly rewarded. Those who were greedy in late 2000 as the markets tumbled had to wait three years for their payoff, over 1,000 sleepless nights.

Buffett sometimes shares the titles of **books that he feels are worth reading.** This year he mentions *Poor Charlie's Almanack* (which examines the shared wisdom from Charlie Munger, Buffett's second-in-command. The book costs about \$50 at Amazon). He also recommends *Seeking Wisdom: From Darwin to Munger* by Peter Bevelin (unavailable at Amazon), and *Where are the Customers' Yachts?* by Fred Schwed (\$14 on Amazon). I will try to get to one or two of these this summer. Buffett's past book recommendations have been quite worthwhile.

While they are few and far between, **investing mistakes** have been made by even Warren Buffett. In the past he has mentioned the losses his past airline investments have suffered. In this year's letter, he describes the Blue Chip Stamps business which Berkshire purchased in 1970. Its sales in the next ten years fell from \$126 million to \$19 million, and then to \$1.5 million by 2000. I find this episode puzzling, as in the past he has shown the ability to eliminate companies which failed to deliver on his assumptions (such as airlines). This is the downside of 'marrying' your stocks/companies rather than 'dating' them. While difficult, in investing it is generally best to quickly identify mistakes and jettison them rather than hope against hope that they will magically transform into the company that you expected.

Year in Review—Warren noted that in 2006 Berkshire was able to begin investing abroad meaningfully, starting with Israeli manufacturer ISCAR. Mallard has stressed **international investing** since inception, both for diversification benefits (smoothing of results) and also for its access to faster-growing economies. Berkshire's unique structure makes international investing more complicated than for normal investors (who can simply buy foreign mutual funds or stocks)—we can celebrate that we have advantages that Berkshire lacks!



Berkshire's large insurance holdings were hit hard by the 2005 hurricane season. Fortunately, Berkshire benefited by the minimal 2006 hurricane season ('Mother Nature, bless her heart, went on vacation.'). He warns, however, **about the risk of climate change on insurers.** 'It's naïve to think of Katrina as anything close to a worst-case event... We do know that it would be a huge mistake to bet that evolving atmospheric changes are benign in their implications for insurers.'

Buffett for a second year discussed the implications of the **hedge-fund** industry. The 2 and 20 cost structure (2% annual fee plus 20% of profits) works well for the managers, but poorly for the investors. This gets back to his book recommendation *Where are the Customers' Yachts?*

Berkshire News—One area that Buffett spent quite a bit of time covering is Berkshire's **management continuity** (as Buffett is 76 and co-manager Munger is 82). They have identified (to the board) three good candidates (all of whom are current employees) to succeed as CEO of Berkshire. This does not address the role of CIO, chief investment officer, who determines which companies/shares to buy/sell. Here they have a short-term solution in subsidiary GEICO's Lou Simpson, but they do not have a longer-term (younger) solution. They are on the hunt. Contingency planning is very important in financial matters.

Berkshire Business Principles—I read the thirteen principles which Buffett first shared in 1983, and the

Buffett TidBits...Continued From Page 2

two which he has since added. There are **very good recommendations for long-term investors**, including ‘We would not care in the least if several years went by in which there was no trading, or quotations of prices, in the stocks of those companies. If we have good long-term expectations, short-term price changes are meaningless for us except to the extent they offer us an opportunity to increase our ownership at an attractive price.’

I know of no investor or advisor, other than Buffett, who would really not care if the markets closed for several years. That feels pretty extreme. The other extreme, however, is to be watching stock prices minute-by-minute. The middle ground appears much healthier. Note that most investors own a home, and this represents a substantial amount of their net worth. I have gone several years without knowing how much my house is worth—how about you? Buffett may be onto something!

Buffett and Munger **eat their own cooking**. ‘When I do

something dumb, I want you to be able to derive some solace from the fact that my financial suffering is proportional to yours.’ This is the reason that, ‘We will only do with your money what we would do with our own.’ At Mallard we also believe in eating our own cooking—we invest in the same manner as we recommend, and we use the same investments for ourselves as we recommend for our clients.

In the 2006 annual report Chairman’s Letter, Warren Buffett continued his tradition of clearly describing the complex company’s operations in the past year, but also sharing his experienced observations on investing and life. I hope that my ‘Readers Digest’ version provides one or two insights that you find intriguing, interesting, and/or profitable.



Paul Baumbach is the managing partner of Mallard Advisors’ Investment Advisory Division

Allowance

William D. Starnes

This past weekend my son, Blake, was bursting with pride as he graduated from a piggy bank to a real bank account as the receptacle for his allowance. He couldn’t believe it that with a mere \$10 deposit (that could be returned at his request) he would receive a FREE waffle/pizza/quesadilla maker! His little brother was crushed when Blake came out of the bank with the appliance (David had opted to continue to consume his daily allowance money rather than save it at a bank). So, Blake learns early on: it pays to earn and save!

Receiving an allowance is the first experience most children have in actually having their own money and making decisions about how to spend it. There are four major components in structuring a child’s allowance.

1. The age which he starts getting it
2. How much
3. How frequent
4. How it will be used (i.e., charity, presents for siblings)
5. If / how the allowance will be tied to chores

The problem is that the amount and restrictions on how it can be used change every year. However, as the allowance evolves, how you discuss it, and the purchases your child makes with it can be some of the most valuable financial educational tools you have.

Once your child begins asking how much things cost, then

he is likely ready to begin an allowance. I think age 5 or 6 is appropriate.

How much a child gets is the next big decision and there are many approaches to determining this amount. A good rule of thumb is that a child can be responsible for \$1 per week for every year of their age. In other words, \$7/week would be a reasonable allowance for a 7-year-old child. In conflict with this rule, my 7-year-old receives \$3/week. The amount is also driven by what their allowance requires them to pay for. This might include charitable giving, gifts for siblings, or purchases (such as clothing). Regardless, an allowance is a great way to learn budgeting, and the fact that money is limited and that decisions must be made on its use.

Frequency of the allowance is driven by age with less frequent “pay-days” occurring as the child ages. This naturally teaches better budgeting skills when your teenager must allocate a monthly budget over the weeks of that month.

Your child will make mistakes with their allowance. However, it is much easier to make mistakes with money and learn the underlying lessons as a child rather than as an adult. The lesson will also be better learned if the child is not bailed out when they make a mistake.

Hands-on experience with money is a great teacher.

After writing the last issue's cover article titled "Retirement Savings—How Much is Enough?" I began to reflect on how a person's definition of retirement can significantly impact their savings need. Many people have no intention of retiring, or more likely intend to simply redefine their work as they age.

For example, moving from a large company to self-employment in order to continue the same work, yet on your own terms, may be one option for redefining work.

In particular, "work" as many people understand it, is not the problem, rather it is the hours or the company demands that turn work into a toil.

What if it were possible to live a balanced life of work, family, and leisure? Would this impact the amount you would need to save if you worked longer making less money? Of course—all of our decisions have a financial impact! This again is why rules of thumb are insufficient when doing retirement projections. Employment income doesn't always simply end at Social Security full retirement age.

The following story provided to me by a client several years ago illustrates the differences in people's definitions of retirement. Enjoy!

An American businessman was at the pier of a small coastal Mexican village when a small boat with just one fisherman docked. Inside the boat were several large yellow fin tuna.

The American complimented the fisherman on the quality of his fish and asked how long it took to catch them.

The Mexican replied, "Only a little while."

The American then asked why didn't he stay out longer and catch more fish?

The Mexican said he had enough to support his family's immediate needs.



The American then asked, "But what do you do with the rest of your time?"

The Mexican fisherman said, "I sleep late, fish a little, play with my children, take siesta with my wife, Maria, stroll into the village each evening where I sip wine and play guitar with my amigos. I have a full and busy life, senior."

The American scoffed, "I am a Harvard MBA and can help you. You should spend more time fishing and with the proceeds buy a bigger boat. With the profits from the bigger boat you could buy several boats, eventually you would have a fleet of fishing boats. Instead of selling to a middleman, you would sell directly to a processor, eventually opening your own cannery. You would control the product, processing and distri-

bution. You would need to leave this small coastal fishing village and move to Mexico City, then Los Angeles, and eventually New York City where you will run your expanding enterprise."

The Mexican fisherman asked, "But senior, how long will this all take?"

To which the American replied, "Fifteen to twenty years."

"But what then, senior?" asked the fisherman.

The American laughed and said, "That's the best part. When the time is right, you would announce an IPO and sell your company stock to the public and become very rich - you would make millions."

"Millions, senior? And then what?" the fisherman asked.

The American said, "Then you would retire. Move to a small coastal fishing village where you would sleep late, fish a little, play with your kids, take siesta with your wife, stroll to the village in the evenings where you could sip wine and play guitar with your amigos."



Bill Starnes is the managing partner of Mallard Advisors' Financial Planning Division