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## CAUTION FROM A CLIENT ABOUT INVESTING

I did not expect a negative event to inaugurate our reformatted newsletter. However, I think it is important to get a grip on what is happening with stocks.

There is never a perfect time to invest. Either the market is too high or the market is too low and going lower. As one client pointed out, there is always a feeling of uncertainty in the situation. And that feeling comes because equity investing contains risk.

To give this a better perspective, I wish to share with you an email that was forwarded to me by a client. It is reported to be the contents of a prospectus prepared by IPS Investment Company and posted on the Motley Fool website. I do not know if this is truly in the prospectus of IPS, however, the sentiment is true as it pertains to volatile stocks.

Reportedly from the IPS Investment Company:

First of all, stock prices are volatile. Well, duh. If you buy shares in a stock mutual fund, any stock mutual fund, your investment value will change every day. In a recession most fund shares will go down, day after day, week after week, month after month, until you are ready to tear your hair out, unless you've already gone bald from worry. It will insist on this even if Gandhi, Jefferson, John Lennon, Einstein, Merlin and Golda Meir all manage the thing. Stock markets show remarkably little respect for people or their reputations. Furthermore, if the fund has really been successful, you might be buying someone else's whopping gains when you invest, on which you may have to pay taxes for returns you didn't earn. Just try and find somewhere you don't, though. Dismal.

While the long-term bias in stock prices is upward, stocks enter a bear market with amazing regularity, about every 3 - 4 years. It goes with the territory. Expect it. Live with it. If you can't do that, go bury your money in a jar or put it in the bank and don't bother



Dear Advisor



Dear Howard

us about why your investment goes south sometimes or why water runs downhill. It's physics, man.

Aside from the mandatory boilerplate terrorizing above, there are risks that are specific to the IPS Millennium Fund you should understand better. Since most people don't read the Prospectus (this isn't aimed at you, of course, just all those other investors), we thought we'd try a more innovative way to scare you.

We buy scary stuff. You know, Internet stocks, small companies. These things go up and down like pogo sticks on steroids. We aren't a sector tech fund, we are a growth & income fund, but right now the Internet is where we think most of the value is. While we try to moderate the consequent volatility by buying electric utility companies, Real Estate Investment Trusts, banks and other widows-and-orphans stuff with big dividend yields, it doesn't always work. Even if we buy a lot of them. Sometimes we get killed anyway when Internet and other tech stocks take a particularly big hit. The "we" is actually a euphemism for you, got it?

We also get killed if interest rates go up, because that affects high dividend companies badly. Since rising interest rates affect everything badly, we could get killed even worse if the Fed raises rates, or the economy in general experiences higher interest rates beyond the control of those in control, or gets out of control. Whatever.

Many of the companies we buy are growing really fast. Like, 50%-100% per year sales growth. Many of them also don't make any money, although they may be relatively large companies. That means they have silly valuations by traditional valuation techniques. We don't know what that means any more than you do, because we have never seen anything like





Dear Howard

the Internet before. So we might overpay for these companies, thinking we are really smart and can get away with it because they are growing so fast. It doesn't take a whole lot for these companies to drop 50% or more, because nobody else knows what they are worth either. Received Wisdom can turn on a dime in this business, and when that happens prices fall off a cliff.

Even if we were really smart and stole these companies, if their prices run way up we are still as vulnerable as if we were really dumb and paid that high a price for them to start with. If we sell them, you will get pretty irritated with us come tax time, so we try not to do any more of that than we have to. The pole of that strategy, though, is that if we are really successful, you will have a lot of downside risk in a recession or a bear market. Bummer.

Governments and politicians being what they are, they also tend to monkey with things. Sometimes it's good, sometimes not, but that's beside the point. Occasionally they take aim on an entire industry, like telecommunications or electricity power generation. Understandably, this makes folks jumpy. Jumpy people have a regrettable tendency to sell stuff until they calm down. Really jumpy folks sell lots of stuff, and some of it could be ours. If this line of thinking makes you jumpy too, then go see your banker. Bankers specialize in jumpy folks.

Finally, if you haven't already grabbed the phone and started yelling at your broker to sell our fund as fast as possible, you should understand the shifting sands of technology. It doesn't take billions of dollars to start a high tech company, like it did U.S. Steel or Ford Motor. Anybody can do it, and everybody does. Many of our companies are small, even though they dominate their market niche. It's much easier for a new tech-





Dear Howard

nology to blow one of our companies out of the water than it was in the old days of canal, mining, railroad and steel companies.

Just so you know. Don't come crying to us if we lose all your money, and you wind up a Dumpster Dude or a Basket Lady rooting for aluminum cans in your old age.

The Motley Fool site closed with the following:

Don't you love it! The other side of the coin that you also need to keep firmly in mind is that over the long term, these risks grow increasingly less important because, so far anyway, that saw tooth graph that is the market manages to rise more than it falls. Hanging on when the graph is heading down is what makes that long-term climb possible.

The email to which this was attached had this as the opening statement, "... DOESN'T GET ANY CLEARER THAN THIS!"

Now for some information to keep in mind about the future. Markets also go up. The question is — when?

There are no guarantees that this will turn around soon or that there is a bottom to be reached in the near term. However, there are indications that this will most likely not be a long-term, multi-year bear market. That is not to say that we will see 20% and 30% returns in the next few months — or years. But it does mean that stocks should once again pick up an orderly upward movement.

Turning to the investment section of this letter, we will look at recent "crashes" or "corrections" that have occurred within the major averages. We also look at the time for each recovery. This information was obtained from Morningstar Investment Information Services and shows that extreme moves in any direction tend to be followed by an adjustment.



## MAKING DIFFICULT DECISIONS

Managing life, or any well run business, requires an ability to prevent and to resolve problems. The evidence of this ability is found in the wake of an effective decision making process. Without this ability, any business, as well as your personal affairs, may not run smoothly.

Today it is often noted that private lives and corporate lives are very different in this regard. It is argued that if someone has difficulty making decision in their private world, it does not impact their ability to do so in public situations. This may be due to a split in how a problem, and pursuant decision process is perceived on a personal versus professional level.

Professional choices tend to be made with a degree of detachment. This lack of vested personal interest allows for an objective view of the problem as it is presented. When the content shifts to a personal situation, then the problem has a component in which the decision maker is fully vested. This may, in many cases, result in fear and timidity – a degree of uncertainty that cripples the decision making process.

When people agonize over problems, they are apt to consider decisions irrevocable. They may think that changing their mind is a sign of weakness or an admission of failure. Effective managers, on the other hand, are flexible. Once they realize a decision is not bringing the desired results, they cut their losses and change direction instead of investing more time and effort in a no win situation. By accepting the fact that there is no perfect solution to a problem, and that some decisions will be better than others, you will stop worrying about finding the "right" answer.

A risk is taken every time you make a decision. You realize that every decision has both positive and negative consequences. The implication is that your goal should be to find the best possible solution with the least number of drawbacks, based on the information available.

This starts by planning ahead so that if problems crop up, you are prepared to act - not react. This allows you to control circumstances instead of allowing them



to control you. You can take the initiative by anticipating and solving problems. If you are always responding to crises, you may have to carry out the decisions of others instead of advancing your own plans.

Finally, develop your problem solving skills. Decision-making improves with practice. Few people come to it naturally. Those who seem to have instinctive problem solving talents observe and implement tactics of others until they acquire the ability to make good decisions themselves. This is also true when it comes to investing.

To help fine tune problem solving talents, the following ten guidelines have proven to be very useful:

1. There's seldom only one solution to a problem. Choose the best alternative from the solutions that are proposed, or base the decision on past solutions of similar problems. Weigh the pros and cons of each alternative before you determine the best action for this particular circumstance.
2. Make decisions that help achieve pre-defined objectives. You must operate within the framework of your goals which provide parameters for making effective decisions. A decision that does not reflect a goal is like a quote taken out of context. Although it may have merit on its own, it adds nothing to the total understanding of a problem.
3. Consider people's feelings. As well as looking at facts, consider feelings whenever people are involved. Even if you must make an unpopular decision, you can minimize repercussions, such as low morale or lack of productivity, if those impacted know you have taken their feelings into account.
4. Allow quality time for problem solving. Take time to weigh the consequences of possible alternatives. The more complex the problem, the more time you will need to come up with a solution. For instance, if you have to decide how to trim the budget or restructure a portfolio (for example), allow adequate private time in which to deal with the problem without interruptions. Moreover, pick a time when you are feeling energetic and your mind is fresh. If you try to make a major decision when tired or distracted, crucial errors in judgment may occur.





# Planning by Design

5. Realize that you will never please everyone. Likewise that options may not be fully satisfying to you. Few decisions meet with unanimous approval. In business, the appointed authority, not the majority, always rules. At home, use delegation and be clear in giving authority to those who need to make the decisions for areas of individual responsibility.

6. Consider all the consequences. Every decision you make triggers a chain reaction that affects other people and other decisions. In thinking through the consequences of different solutions to a problem, consider how each alternative will affect those involved.

7. Make timely decisions. You will always feel as if you need a few more days to consider other alternatives. However, delaying a decision can cost in both financial as well as emotional terms. Schedules demand timely decisions based on the data at hand. Use the talents of your companion and family members as you would those you work with. Help them to build the resources needed to deliver the results in the time available.

8. Put decision making in perspective. Every executive feels overwhelmed at times by either the enormity or the number of decisions made during a business day. If you approach decision making with the attitude that the future is in your hands, you just might freeze and become incapacitated. For peace of mind, accept that you are doing the best job you can with the time, talent and resources available.

9. Don't wait for a popular vote. Rallying support around a decision before you take action, or waiting for a vote of confidence before deciding anything, may cost too much in time. There are times when you just have to do something.

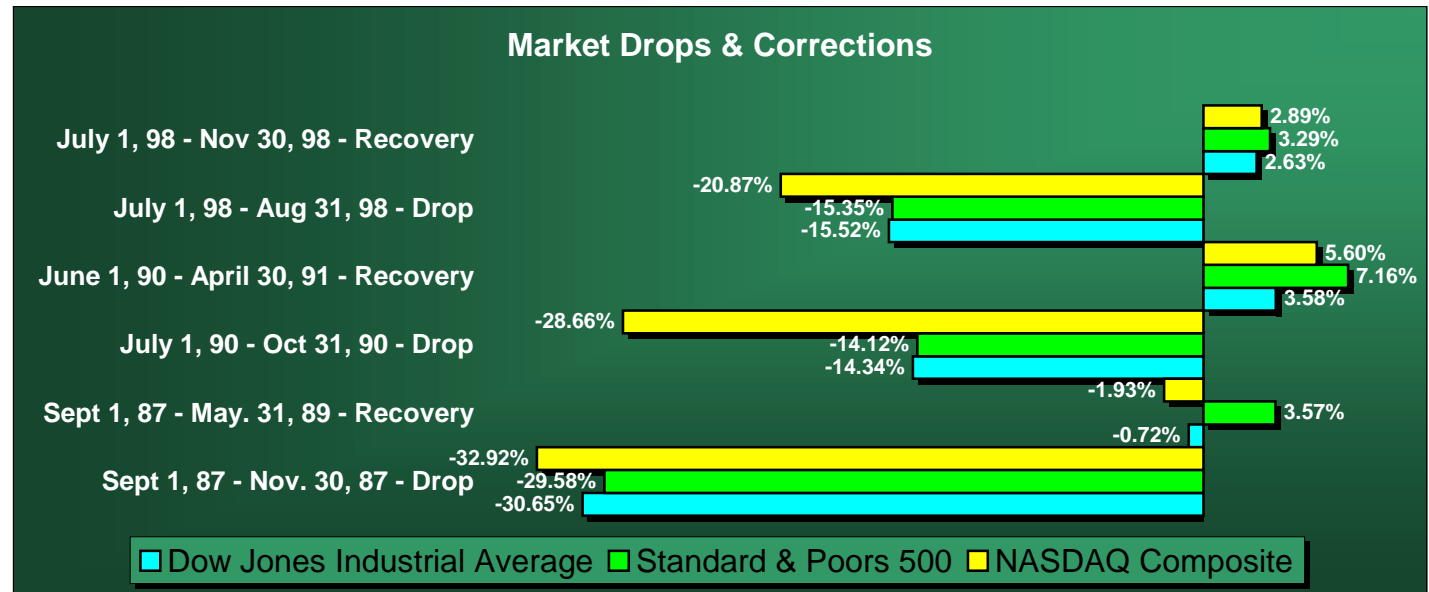
10. Stand behind your decision. Commit the energy and resources needed to achieve the desired outcome, while setting the tone to obtain support for your decision. If you act as though you are not sure this will work or that this is only the best solution we could come up with, you will not engender confidence in the decision. People will then be less likely to give it their best shot. On the other hand, if you confidently announce your decision, those affected will probably consider it a positive plan and make every effort to ensure it succeeds.



## MARKET INSIGHTS TO CONSIDER

The activity of the past week is not new to the stock markets. However, it does raise fundamental questions like, "Have investment rules changed ... again?" "Did I make a mistake by investing into technology?" "Where is the bottom and what do I do from here?"

First, the rules have not changed. Valuation is still the rule based on expectations for future growth and market penetration. If you still feel that technology changes



[CLICK ON AN EVENT TO SEE THE DETAILS](#)

in our society are just barely scratching the surface, then growth technology should be part of your portfolio.

As for whether this is a bottom or not, no one can say. But the graph above can add some perspective to the picture. While there may be guidelines and ideas to follow, based on your portfolio requirement, the core question always remains the same ... are you following a designed plan of investing or chasing after the next hot thing. If you are following a plan by design you are better equipped to succeed in the long-term.





*investment center*

Remember back when the market crashed in 1987? One commentator noted that the only difference between the magnitude of the crash in 1987 and the one in 1929 was that the windows in the buildings on Wall Street had security bolts in them to keep people from jumping out. Now look at where the markets are.

To get a better perspective, it also helps to understand what is actually behind the numbers on Wall Street; in particular the ominous drop in the Dow Jones Industrial Average.

The Dow is comprised of 30 large companies. These change from time to time to reflect industrial America.

#### Composition of The Dow Jones Industrial Average

As of Friday, April 14, 2000

Company Name	Symbol	Price	Weight %
Alcoa Inc.	(AA)	66.1875	3.188
American Express Co.	(AXP)	133.4375	6.427
AT&T Corp.	(T)	50.0000	2.408
Boeing Co.	(BA)	35.3750	1.703
Caterpillar Inc.	(CAT)	40.5625	1.953
Citigroup Inc.	(C)	57.6250	2.775
Coca-Cola Co.	(KO)	46.7500	2.251
DuPont Co.	(DD)	56.1250	2.703
Eastman Kodak Co.	(EK)	61.3750	2.956
Exxon Mobil Corp.	(XOM)	78.7500	3.793
General Electric Co.	(GE)	144.6250	6.966
General Motors Corp.	(GM)	82.0625	3.952
* Home Depot Inc.	(HD)	57.5625	2.772
Honeywell International Inc.	(HON)	53.9375	2.597
Hewlett-Packard Co.	(HWP)	123.0000	5.924
IBM	(IBM)	104.0000	5.009
* Intel Corp.	(INTC)	110.5000	5.322
International Paper Co.	(IP)	39.8750	1.920
J.P. Morgan & Co.	(JPM)	122.0000	5.876
Johnson & Johnson	(JNJ)	73.6250	3.546
McDonald's Corp.	(MCD)	33.3750	1.607
Merck & Co.	(MRK)	63.5625	3.061
* Microsoft Corp.	(MSFT)	74.1250	3.570
3-M	(MMM)	90.6250	4.365
Philip Morris Cos.	(MO)	21.0625	1.014
Procter & Gamble Co.	(PG)	62.6250	3.016
* SBC Communications Inc.	(SBC)	42.7500	2.059
United Technologies Corp.	(UTX)	56.6250	2.727
Wal-Mart Stores Inc.	(WMT)	55.0625	2.652
Walt Disney Co.	(DIS)	38.9375	1.875

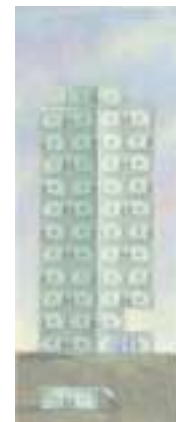
\* New to the Dow as of November 1, 1999.

Information obtained from the Dow Jones web site.

However, the impact a given stock has on the average is not uniform (see chart). This is why a small movement in a few stocks can have a significant impact on the Dow.

For example, if American Express, General Electric, Hewlett-Packard, IBM, Intel and 3-M all went down by \$2 a share, the impact on the Dow would be about 68 points — about a 5.6-to-1 impact.

Since the movement of the Dow is disproportionate, we suggest looking to other sources as a reference. These include the S&P 500 for large cap stocks and the NASDAQ for the balance of the market.





investment center

To add another level of clarity to the situation, we have prepared a chart indicating investment performance of the different market segments since 1980 (click here to view chart). No one sector of the market was a consistent winner. However, by blending the risks, a portfolio can generate an overall good return.

It has been said that to focus all of a portfolio into one sector of the market is to optimize the returns from that sector. If you were in biotech at the right times, you would have hit many home runs. If you were in dot.coms at the right time, you would have retired early. If Warren Buffett knew what the fundamentals were in the internet, he would have been there — maybe.

The bottom line is that there is no crystal ball, no absolute guarantees and no way to time to market. That leads to diversification. By balancing risks, it has been said that you tend toward mediocrity. However, given that very few sector investors ever actually beat the market averages, being mediocre may not be that bad.

Where do you go from here? Continue following your investment design. Waiting for the perfect time may never come. If you are long-term (5-10 years) you should consider equities. Here are just as few reasons people used to not invest in the past. How might you have reacted in each situation?

1934 Depression	1935 Spanish Civil War
1936 Economy is Still Bad	1937 Recession Worldwide
1938 War Clouds Gather	1939 War In Europe
1940 France Falls, England bombed	1941 Pearl Harbor
1942 Wartime Price Controls installed	1943 Industry Mobilizes for War
1944 Consumer Goods Shortages	1945 Post-War Recession Predicted
1946 Dow Tops 20 - Market Too High	1947 Cold War Begins
1948 Berlin Blockade	1949 Russia Explodes its A-Bomb
1950 Korean War	1951 Excess Profits Tax adopted
1952 U.S. Seizes Steel Mills	1953 Russia Explodes an H-Bomb
1954 Dow Tops 360 - Market Too High	
1955 Eisenhower Illness	1956 Suez Crisis - Mideast War
1957 Russia Launches Sputnik	1958 Recession in US and Europe

(Continued on following page)





*investment center*

1959	Castro Seizes Power in Cuba	1960	Russia Hits U-2 Plane-Cold War
1961	Berlin Wall Erected	1962	Cuban Missile Crisis
1963	Kennedy is Assassinated	1964	Gulf of Tonkin Resolution
1965	Civil Rights Marches	1966	Vietnam War Escalates
1967	Newark Race Riots	1968	Pueblo Seized-Chicago Riots
1969	Money Tightens - Markets Fall	1970	Cambodia Invaded-War Spreads
1971	Wage Price Freeze	1972	Largest U.S. Trade Deficit Ever
1973	Energy Crisis, Gas Pump Lines	1974	Watergate Crisis
1975	Resource Shortages	1976	Limit to Long-Term Growth
1977	Inflation Increases	1977	Interest Rate Rise
1979	Oil Prices Up, Rationing Threat	1980	Interest Rates at All-Time Highs
1981	Steep Recession Begins	1982	Worst Recession in 40 Years
1983	Market Hits New Highs	1984	Record Federal Deficits
1985	Economic Growth Slows	1986	Dow Nears 2000-Market High
1987	Market Declines 20% in One Day	1988	Savings & Loan Crisis
1989	Bank Failures Increase	1990	Persian Gulf Crisis
1991	Dow Tops 3000 - Market Too High		
1992	Global Recession	1993	Health Care Reform commenced
1994	Tax & Deficit Reduction Scare	1995	Politically Divided Congress and Presidency
1996	Investigations Stall Progress of Both Congress and President		
1997	Dow approaches 9,000 after massive escalation		
1998	Kosovo/Saddam scare	1999	Y2K

ONE GOOD REASON TO CONSIDER INVESTING: \$10,000 Invested in the U.S. stock market (based on the Standard & Poors 500 Index) in January of 1934 would have been worth over \$13 million as of year-end 1997. \$10,000 Invested in U.S. Treasury Bills (equivalent to bank Certificates of Deposit) in January of 1934 would have been worth 1,200,000 as of year-end 1997.

Year after year, people think of reasons why not to invest in the market. Yet, over the years, stocks have outperformed virtually all other investment opportunities in the United States. While there are no guarantees — that is why stocks tend to outperform bonds — a little diversification and being attentive to not over-indulge in any one segment of the market may provide the best possibility for a positive investment outcome.



## VACATION HOME TAXATION

If "red sails in the sunset" or "a luxurious mountain view" are part of your American dream, take heart: the tax law may offer you some savings that could help you pay for that vacation home you've always wanted. Just because you have a personal residence does not limit you to deductible interest on that alone.

A vacation home can be a very attractive investment, as well as an enjoyable break in routine and potential retirement residence. You get tax breaks from mortgage interest and real estate taxes whether you rent the place out or not.

While the tax rules have changed in recent years, you may find some tax advantages, depending on whether you use the place solely for enjoyment or mix business with pleasure, by renting the property part time.

### HOW MANY HOMES

You can deduct all of the interest paid on a mortgage used to buy a second home as long as the combined debt secured by the vacation home and your principal residence does not exceed \$1.1 million. Only two homes per person, though. If you purchase a third, interest on that mortgage is considered "personal" interest.

### DEDUCTING MORTGAGE POINTS

One break enjoyed by homeowners, the right to immediately deduct points paid to get a mortgage, applies only to a principal residence. Points paid to get a loan for a vacation place must be deducted gradually as you pay off the mortgage.

### LEGAL UNREPORTED INCOME

When you rent out your vacation home for less than 15 days in a year, you



don't have to report the income - it's tax-free. This may help you to pay for your own vacations by renting the house to others over prime vacation times, like the Fourth of July and Labor Day weekends. You collect those prime tax-free dollars, and you can still deduct mortgage interest and taxes.

You cannot, however, deduct any rental expenses, such as operating costs and depreciation if the rental period is less than 15 days.

#### LIMITED PERSONAL USE

If you also rent out the house on a continual basis, this is where things become complicated. Different rules apply, depending on the breakdown between personal and rental use. First, if you buy primarily for pleasure, but rent for 15 days or more, the rent you receive is taxable. The house is still considered a personal residence though, so you get to deduct all the interest and property taxes.

You may also get to deduct other expenses including the part of the cost of utilities, repairs and insurance attributable to the time the house is rented. You might even get to deduct depreciation, but that is doubtful.

When the house is considered a personal residence, rental deductions cannot exceed the amount of rental income you report. In other words, your second home cannot produce a tax loss to shelter other income. In most cases, the interest and taxes assigned to the rental use of the house plus the operating expenses more than offset rental income. This does not give you the chance to take a write off for depreciation.

When you use the house yourself for part of the year and rent it to others for the rest of the year, your deductions are governed by a complicated set of rules. Your deduction will depend mostly on the amount of personal use.

If your personal use is minimal (less than 15 days or less than 10% of the time the house is rented to others), the tax treatment is the same as for any other rental property, although you cannot deduct a loss.





As long as your rental activities are profit motivated, you can deduct the rental portion of your expenses - including operating costs, such as maintenance, insurance, repairs, and depreciation.

## THE HOME AS AN INVESTMENT

Now consider your tax situation if you buy primarily as an investment and limit your personal use of the property to 14 days a year (or 10 percent of the number of rental days if that allows you more than 14). The house is a rental property in the eyes of the IRS so your deduction can exceed the amount of rental income you receive.

That opens the door to depreciation write-offs that, in the past, could produce big paper losses and big tax savings. The advantage to you though depends on whether you are tripped up by the "passive loss" rules introduced in 1987.

Basically, rental losses are classified as passive and can be deducted against only passive income from another rental property or a limited partnership. If you do not have passive income to shelter, the losses have no immediate value. Unused losses can be used in future years when you have passive income.

There is an exception to this rule, however, that permits taxpayers with adjusted gross income (AGI) under \$100,000 to deduct \$25,000 of passive losses against other kinds of income including salaries. To qualify, you have to actively manage the property. The \$25,000 allowance is gradually phased out as AGI rises between \$100,000 and \$150,000.

When your vacation home is really a rental property, the mortgage interest attributable to the time the place is rented is a business deduction. The rest, though, cannot be deducted as home mortgage interest since the house does not qualify as a personal residence.

The non-rental part of the mortgage interest is personal interest, the deductibility of which is being phased out as noted above.



*Taxing matters*

## EXTENDING PERSONAL USE BY LONGER RENTAL

The longer you rent the place out, the more you can use it and still deduct rental expenses. If the house is rented for 220 days, for example, you can use it yourself for three weeks (less than 10% of 220).

## THE MIXED-USE RULES

When the house is rented for more than 15 days and you use it more than 14 days or more than 10% of the rental days, these rules apply:

You cannot deduct more than the amount of rent you receive. You must also take ns in a prescribed order:

1. Real estate taxes and mortgage interest.
2. Operating costs.
3. Depreciation.

You must then prorate your deductions. This means that you are only able to deduct the rental-use portion.

Since you cannot show a loss, the amount of interest and taxes you are allowed to deduct as a rental expense is crucial. The smaller the percentage of taxes and interest you must deduct, the more operating costs and depreciation you can deduct.

The non-rental portion of taxes and mortgage interest is still deductible as a personal expense on Schedule A of your tax return.

## THE BIG BOLTON VICTORY

Taxpayers won an important victory on the allocation question in the courts. In the Bolton case, the taxpayer rented his vacation home for 91 days and used it himself for 30 days.





*Taxing matters*

The IRS position was that taxes and mortgage interest must be prorated on the basis of actual use. The IRS contended that the taxpayer must allocate 75% of his interest and taxes to rental income (the ratio of 91 days of personal use to 121 days of total use). The taxpayer's argument was the proper allocation was 25% (91 days of personal use to 365 days in the year). Decision: In favor of the taxpayer. Although the IRS does not agree with the decision in the Bolton case, taxpayers have reasonable grounds to use the more favorable rule.

TYPICAL EXAMPLE: You rent your vacation home for three months and use it yourself for one. Rent is \$2,000; interest and taxes total \$1,000. Total operating costs are \$1,600 (3/4 attributable to rental) and depreciation is \$2,500.

Under the IRS rule, you would have to allocate 75% of taxes and interest to the rental income (three months out of four months of actual use).

Under Bolton, your allocation is only 25% (three months out of the year). Here is the difference Bolton would make on your return. Schedule A deductions: Under the Bolton rule you can deduct \$750 for interest and taxes as an itemized deduction (\$1,000 minus \$250). Under the IRS rule, only \$250.

Hopefully this little insight can help make your vacations a little less taxing.





## THE OAK TREE INTERNET SITE

We are pleased to announce the introduction of our new web site. The site has been under construction for about eight months and has been the focus of a great deal of effort.

We express our appreciation to Mark Berndt and Joe Wein of Gomachine, Inc. for their work as the developers of the site and for their consistent professional input regarding the complexities of the design and security issues that we face.

**WHY A WEB SITE:** For some time we have wanted a way to communicate with you on a more frequent basis and with more focused information. However, as part of our pledge of service to our clients, we spend a lot of time coming to your home or location of business to service your needs with a more personal level of service. Our quandary was how to continue serving you with personalized attention while meeting the increased reporting requests that were being added to our practice.

The result was a web approach for reporting while using our personal time together for planning and strategizing.

**SECURITY:** The biggest single issue that we faced was how to deliver private information in a secure format. We recognize from years of being in this business that even private information sent by mail can be misdirected or delivered in error. While such events are unintentional, they do occur.

Keeping this in mind, we recognize that web delivery of information has its own demands for the secure delivery of information. To meet these requirements, Gomachine, Inc. has added three levels of security to the web-based approach.

First, they are setting up the web site on a secure server location. This means that the physical mechanism that you reach over the web is secured from all other locations in the web. At this level of entry there will be public





*of interest*

information, like the newsletter, as well as information about Oak Tree. From time to time we may add pages of interest that we would like to share with the public as well as our clients.

The second level of security will be a password-protected entry port. At this level we will provide you with an assigned user name and password for entry into the area. Any changes in the password will need to be requested from Oak Tree. Once such a request is received, we will process a new password and send it back to you in a secured envelop. Should your password be lost, we will stop access to your web page shortly after being notified of your security breach.

The third level of security will involve private key encryption. This is a process in which we create an encrypted file of your personal information. This file is then placed into your web folder. You can then enter the web site and download your information onto your own computer. The package will not open unless that computer has your private key on it. Even if you download the package to a computer where you are working, if the private key has not been added to that machine, the information remains unreadable. This third level of protection is designed to thwart attempts by any one who may try to see your information unless that private key is in their possession.

While nothing is absolutely perfect, our goal is to offer more context-driven reporting on a more frequent basis. This is intended to provide you with better service and to make our personal meetings more impactful.

You will soon be receiving a packet of information about accessing the web site. As it arrives, please review the material and follow the instructions provided to establish access to your Oak Tree web files.

We are excited about the opportunities this is offering and look forward to working with you on this most important project.

Very truly,

*Amanda Davis*

*Robin M. Smith*





## THE MISSION OF OAK TREE PERSPECTIVES

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To assist, educate and expose you to information that makes a difference in your personal performance and in your financial future.

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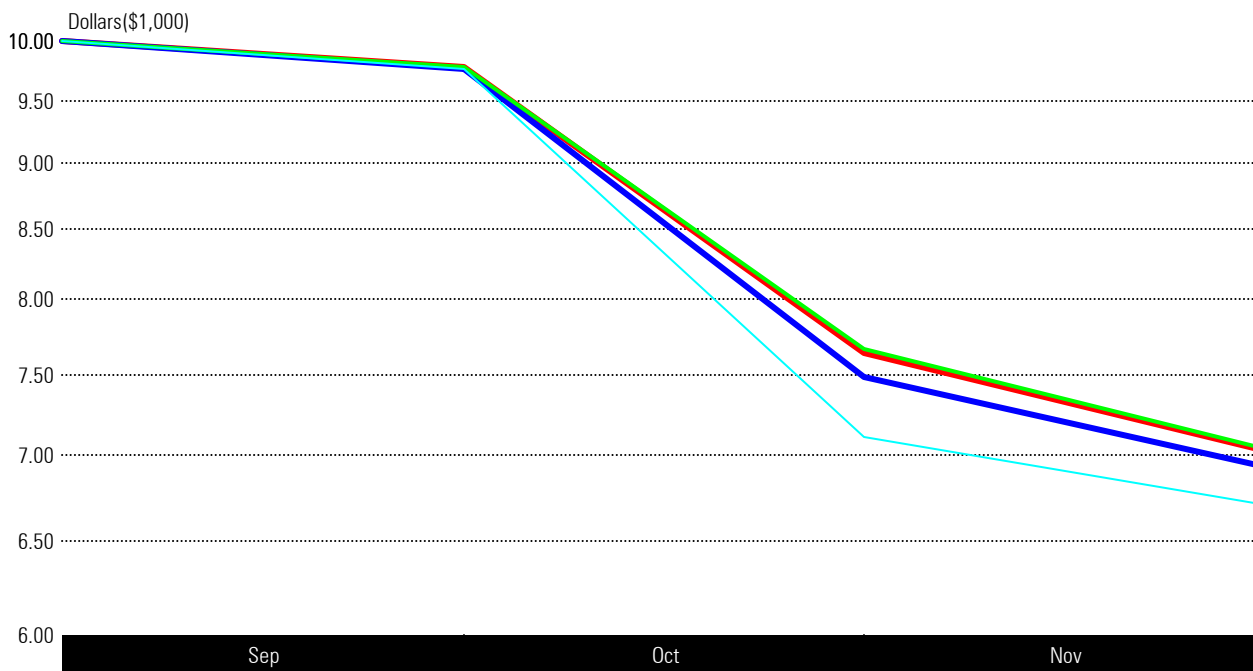
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For information on how these, or other financial concepts  
may apply to your situation, call us at:

(310) 348-9539 or (800) 404-4545

**Growth of \$10,000:**  
**Holding(s) from 09-01-1987 to 11-30-1987**

Fund/Index	Total Return %	Annualized Return %	Amount at End of Period \$
<span style="color: red;">—</span> Vanguard 500 Index	-29.78	—	7,022
<span style="color: blue;">—</span> Dow Jones Industrial	-30.65	—	6,935
<span style="color: green;">—</span> Standard & Poor's 500	-29.58	—	7,042
<span style="color: cyan;">—</span> NASDAQ Composite	-32.92	—	6,708



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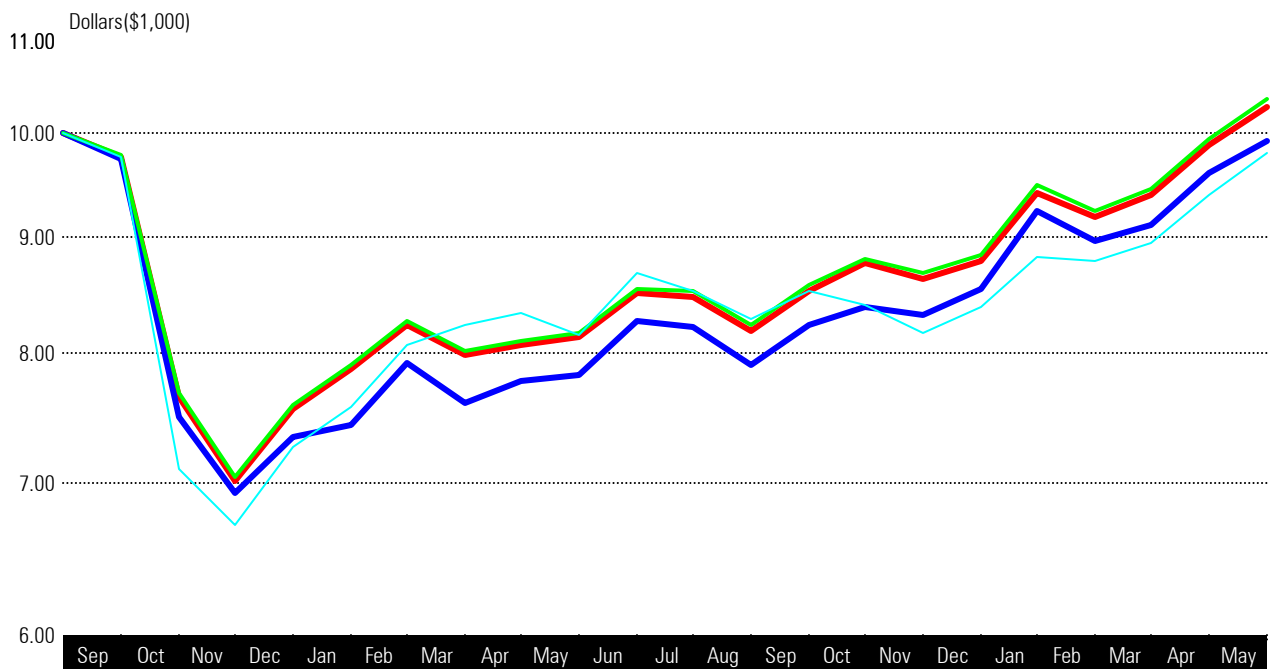
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## Growth of \$10,000:

Holding(s) from 09-01-1987 to 05-31-1989

Fund/Index	Total Return %	Annualized Return %	Amount at End of Period \$
<span style="color: red;">—</span> Vanguard 500 Index	2.81	1.60	10,281
<span style="color: blue;">—</span> Dow Jones Industrial	-0.72	-0.41	9,928
<span style="color: green;">—</span> Standard & Poor's 500	3.57	2.02	10,357
<span style="color: cyan;">—</span> NASDAQ Composite	-1.93	-1.11	9,807

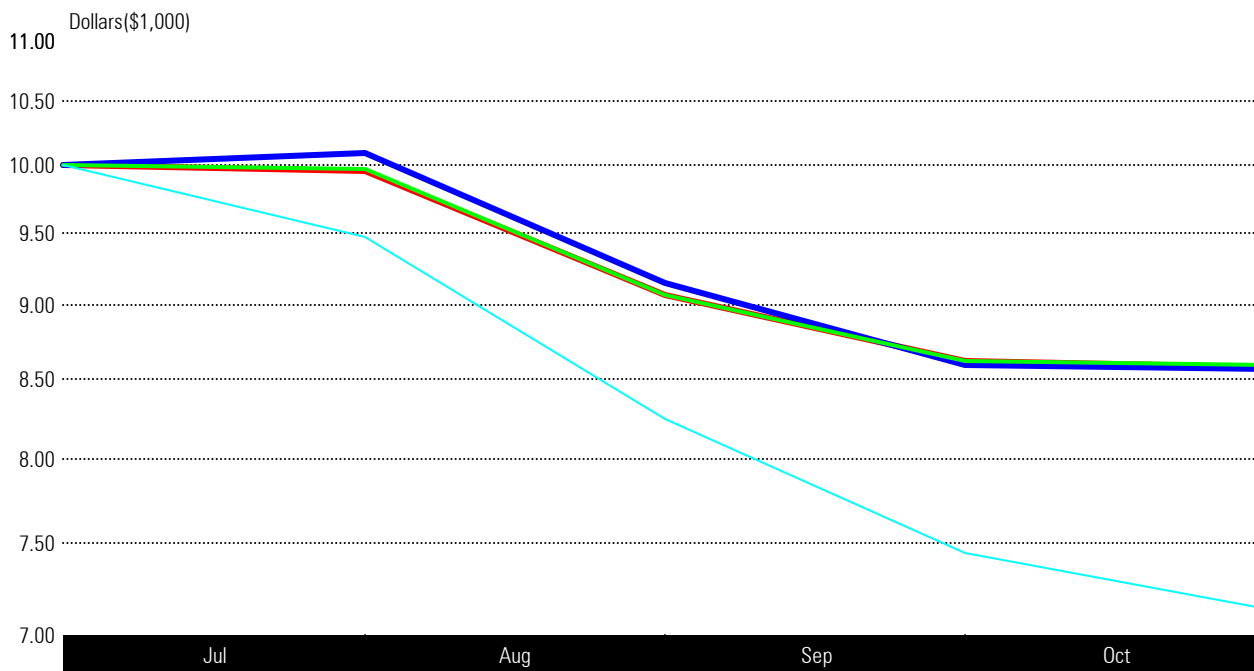


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## Growth of \$10,000:

**Holding(s) from 07-01-1990 to 10-31-1990**

Fund/Index	Total Return %	Annualized Return %	Amount at End of Period \$
<span style="color: red;">—</span> Vanguard 500 Index	-14.14	—	8,586
<span style="color: blue;">—</span> Dow Jones Industrial	-14.34	—	8,566
<span style="color: green;">—</span> Standard & Poor's 500	-14.12	—	8,588
<span style="color: cyan;">—</span> NASDAQ Composite	-28.66	—	7,134

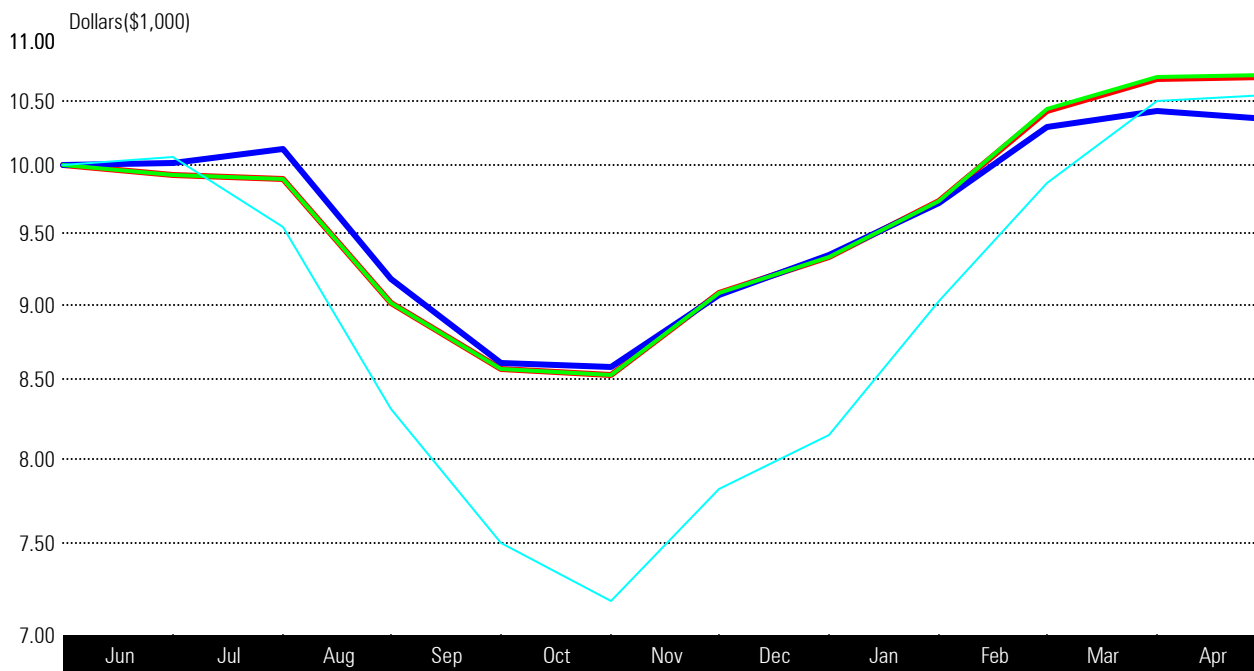


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**Growth of \$10,000:**  
**Holding(s) from 06-01-1990 to 04-30-1991**

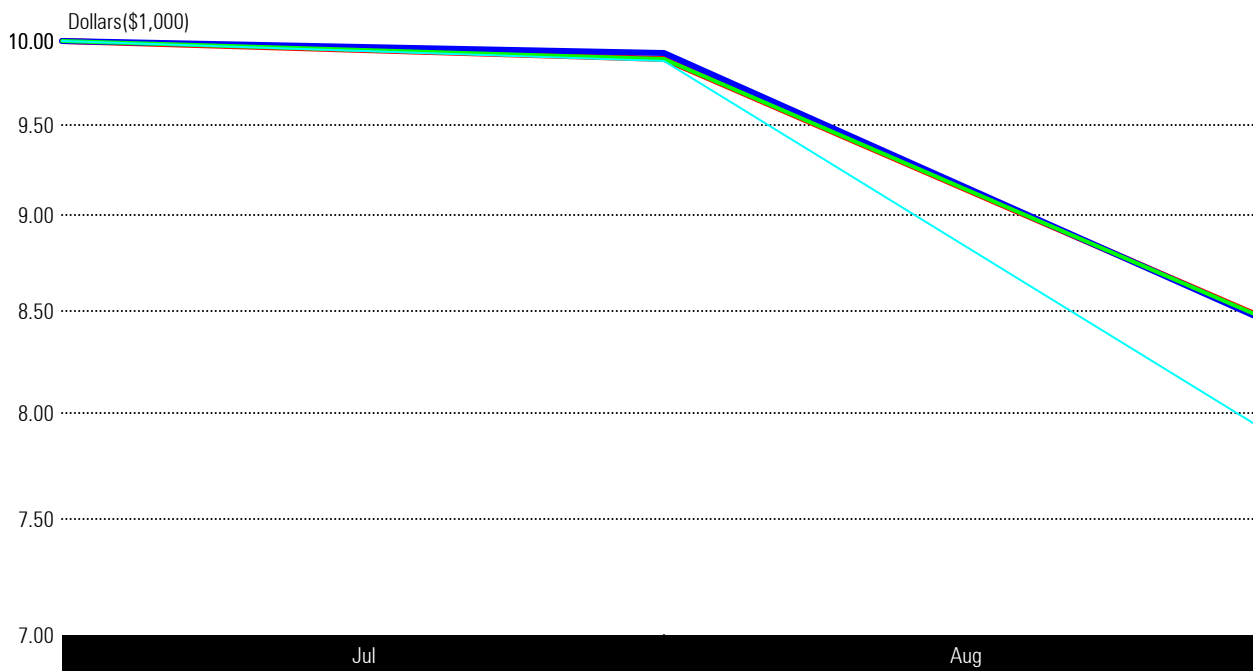
Fund/Index	Total Return %	Annualized Return %	Amount at End of Period \$
<span style="color: red;">—</span> Vanguard 500 Index	6.96	—	10,696
<span style="color: blue;">—</span> Dow Jones Industrial	3.58	—	10,358
<span style="color: green;">—</span> Standard & Poor's 500	7.16	—	10,716
<span style="color: cyan;">—</span> NASDAQ Composite	5.60	—	10,560



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**Growth of \$10,000:**  
**Holding(s) from 07-01-1998 to 08-31-1998**

Fund/Index	Total Return %	Annualized Return %	Amount at End of Period \$
<span style="color: red;">—</span> Vanguard 500 Index	-15.38	—	8,462
<span style="color: blue;">—</span> Dow Jones Industrial	-15.52	—	8,448
<span style="color: green;">—</span> Standard & Poor's 500	-15.35	—	8,465
<span style="color: cyan;">—</span> NASDAQ Composite	-20.87	—	7,913



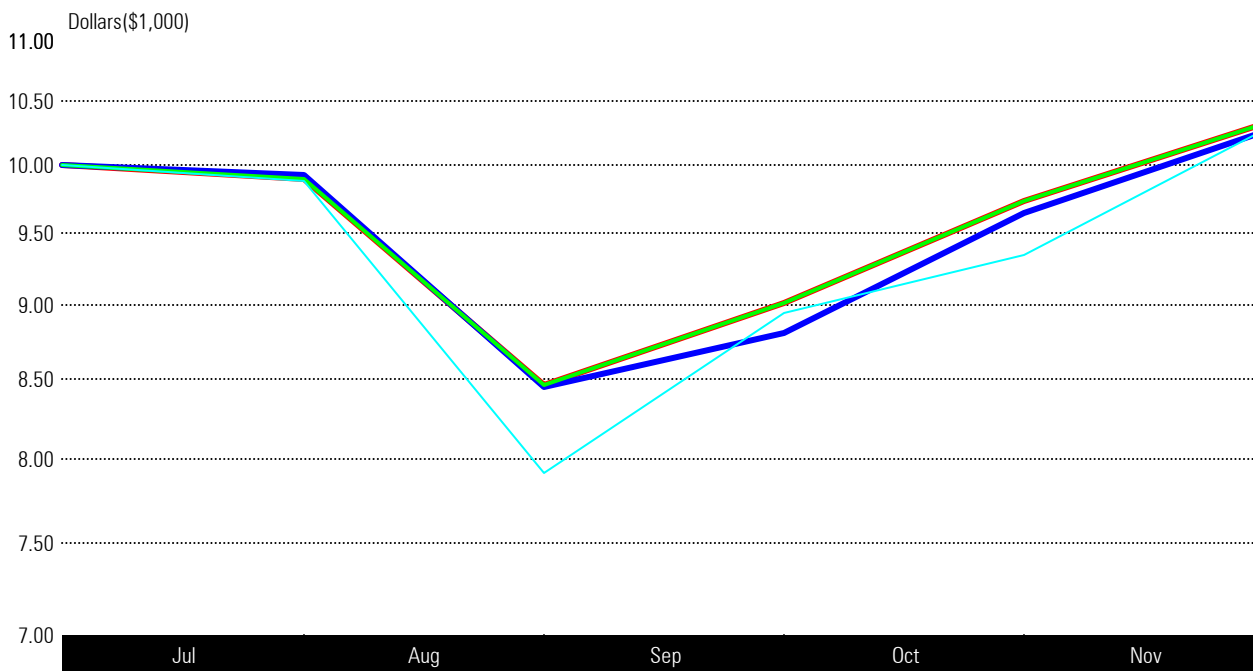
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**Growth of \$10,000:**  
**Holding(s) from 07-01-1998 to 11-30-1998**

Fund/Index	Total Return %	Annualized Return %	Amount at End of Period \$
<span style="color: red;">—</span> Vanguard 500 Index	3.32	—	10,332
<span style="color: blue;">—</span> Dow Jones Industrial	2.63	—	10,263
<span style="color: green;">—</span> Standard & Poor's 500	3.29	—	10,329
<span style="color: cyan;">—</span> NASDAQ Composite	2.89	—	10,289



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## HISTORICAL INVESTMENT PERFORMANCE (Who Really Did The Best, Over All)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
52.26%	14.85%	32.65%	38.63%	15.15%	56.14%	69.46%	24.64%	29.47%	36.40%	8.96%	51.18%	29.15%	32.57%	7.78%	38.13%	26.01%	36.52%	42.16%	43.09%
39.40%	6.26%	28.52%	28.89%	10.52%	33.31%	22.58%	6.50%	28.26%	31.69%	0.20%	41.70%	10.52%	23.86%	3.14%	37.58%	23.97%	33.36%	28.58%	28.25%
32.50%	0.02%	22.03%	23.69%	7.41%	31.73%	21.67%	5.25%	21.67%	26.96%	-3.11%	38.37%	7.77%	18.61%	2.14%	36.99%	22.96%	31.78%	20.00%	26.96%
25.39%	-2.27%	21.55%	22.56%	6.27%	31.01%	18.67%	3.68%	20.38%	26.13%	-4.34%	30.47%	7.62%	13.72%	1.32%	33.45%	22.00%	29.98%	16.10%	25.22%
23.59%	-4.92%	21.04%	20.27%	2.33%	30.97%	15.30%	2.75%	16.61%	20.16%	-6.85%	22.66%	7.40%	13.37%	-0.64%	31.04%	21.37%	22.64%	14.69%	21.04%
22.60%	-9.23%	20.99%	20.14%	2.27%	27.66%	14.50%	2.26%	11.95%	14.53%	-17.42%	20.32%	5.06%	10.08%	-1.55%	25.75%	11.32%	12.93%	8.70%	12.78%
14.94%	-9.23%	19.60%	16.24%	-3.73%	22.13%	7.41%	-7.12%	11.85%	12.43%	-21.77%	16.00%	4.18%	9.75%	-2.44%	18.46%	6.05%	9.64%	1.23%	-0.83%
2.71%	-9.81%	-1.86%	8.90%	-15.84%	20.68%	3.59%	-16.48%	7.89%	10.53%	-23.45%	12.14%	-12.18%	1.68%	-2.92%	11.21%	3.64%	1.78%	-6.46%	-1.49%

