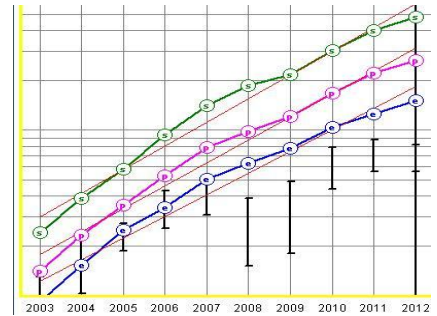




FIRST QUARTER (JANUARY - MARCH) 2015 eNEWSLETTER



UPCOMING EVENTS AND CLASSES:

➤ Spring 2015

- Introduction to Investing, January 10, 9am – noon, CCUM
- Introduction to the Stock Selection Guide (SSG), January 17, 9am – 3pm, CCUM
- Small Talk, January 20, 7pm – 8:15pm via Webinar
- Beginning ToolKit and Lab, February 7, 9am – 3pm, CCU
 - Lab Only, February 7, 1 – 3pm
- Small Talk, February 17, 7pm – 8:15pm via Webinar
- Sound Judgment, February 28
- Advanced ToolKit and Research Tools, March 14, 9am – 3pm, CCU
 - Research Tools Only, March 14, 1 – 3pm
- Small Talk, March 24, 7pm – 8:15pm via Webinar
- Why Invest in Stocks, Smokey Hill Library, Thursday, April 2, 7pm – 8pm
- Portfolio Management, April 4
- Why Invest in Stocks, Eloise May Library, Monday, April 6, 6:30pm – 7:30pm
- Small Talk, April 21, 7pm – 8:15pm via Webinar

Class and Event Location Addresses

Christ Church United Methodist (CCUM) 690 Colorado Blvd, Denver Co 80206	Colorado Christian University (CCU) 8787 W Alameda Lakewood, CO 80226
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AMAZING FACT

"When we took over Berkshire, gold was at \$20, and Berkshire was at \$15. Gold is now at \$1,208 and Berkshire is \$226,680 as of January 8, 2015." – **Warren Buffett, CEO of Berkshire-Hathaway.**

YOU, THE EXCHANGE TRADED FUND, AND THE INVESTMENT CLUB – PART 2

The exchange traded fund (ETF) can play a significant role in your club and personal portfolios. This is Part II of a series.

Portfolio Diversification

The ETF can fill the gaps in portfolio diversification not easily filled using the SSG and purchasing individual company stocks.

This is particularly true in the area of foreign stocks where good information is frequently lacking. Do you want exposure to the leading stocks of China or India? Some Chinese companies like Baidu are traded on the NYSE but most aren't. ETF index funds for these countries are available at lower costs compared to equivalent coverage by mutual funds (MF) and they are more easily traded. Some say that foreign stock diversification isn't as important today as it used to be since many US companies have significant business overseas segments.

On the other hand, you may wish to be invested in an S&P sector otherwise unrepresented in your portfolio but don't feel you have the knowledge to analyze properly or maybe you don't feel the SSG is as useful in each and every sector. One can think of the cyclical sectors such as Energy. Perhaps the easiest thing to do to get some representation in Energy is simply to buy an Energy sector ETF.

The Cost Advantage: Operating Expense

The MF is bought and sold once a day at market close while the ETF is traded all day long just like a common stock. Ease of trading is a nice advantage for the ETF compared to its MF cousin, but the fact that the costs are lower in fees, operating costs, and taxes is what is really important. Because of the competition from ETFs over the past several years, MF costs have come down but they are still higher in total.

On the fee side, the MF can charge a sales fee which is paid by current fund owners to advertise the fund and increase sales to management's benefit. Many funds charge a load when buying and/or selling the fund. A front-end load is charged when you buy the fund and is supposed to be a charge for superior performance. Others charge a back-end load which is assessed when the fund is sold. The back-end load attempts to prohibit frequent trading in fund shares which can be very disruptive to fund management. History shows that front/back loaded funds do not perform any better than no-load funds. Take away: if you still want to invest in MFs, make it only no-loads.

Fund Type	Average Operating Expenses	
	Mutual Funds	ETFs
US Large-Cap Stock	1.31%	0.47%
US Mid-Cap Stock	1.45%	0.56%
US Small-Cap Stock	1.53%	0.52%
International Stock	1.57%	0.56%
Taxable Bond	1.07%	0.30%
Municipal Bond	1.06%	0.23%

The Cost Advantage: Taxes

When someone cashes in their MF shares, fund management may be obliged to sell stock to cover the cost. This is exactly the same thing that sometimes happens to a club (though hopefully much less frequently). When a club member decides on a partial or total withdrawal from the club, the membership must generally come up with sufficient cash or sell some stock. They can't sell the stock through rational decision making. Instead, they must sell for whatever they can get at the time of the withdrawal. Being forced to sell whether you want or not is no way to run a club or a fund, but that's the simple facts of life. It is the same with the MF managers... only much worse.

As Morningstar studies have shown, MF owner's rates of return are about half the returns of the MF itself! How can that be so? Simple. Many MF investors are unwary of

market gyrations. They choose a MF to avail themselves of the benefits of savvy money managers then let themselves be ruled by emotions. They buy when the market is high and euphoria rules. Then they sell when the market is low and everyone is pessimistic and depressed. So they buy high and sell low and then say the stock market is rigged. This inconstancy visits itself on the hapless MF manager who is also forced to sell at the wrong times. If the sale generates a capital gain, the owners of the fund (or club members unless some other arrangement is specified in the bylaws) must pay the bill. The ETF doesn't have this problem since trading shares on the stock exchange has no direct influence on the fund. The ETF share price is set strictly by supply and demand just like an ordinary stock.

The next newsletter will cover how the ETF makes money while keeping shareholder costs low.

WINNING WITH DIVIDEND GROWTH

“Regardless of the market cycle, there's a lot to recommend dividend investing. By paying a dividend, companies let investors share in their growth: Dividends are paid from a firm's free cash flow, making a consistent and steadily increasing dividend a good indication of a company's strong financial health. Dividend-paying stocks tend to outperform those that do not pay over time, and with less volatility, because of the compounding effect of dividends on total return. The effect is particularly strong during bear markets, when dividend income can cushion a decline in price. Dividends are also the primary driver of historical stock returns. After adjusting for inflation, dividend income has accounted for nearly 75% of annual U.S. stock market returns over the last century.” – **Abby Woodham, Morningstar**

WORKING TOGETHER

The Rocky Mountain Chapter board of directors see their main duties as 1) supporting clubs and individuals, and 2) providing quality education for everyone. All directors are unpaid volunteers who want to “give back” for the support they've received in the past. The board meets monthly over the internet using GoToMeeting. But the chapter has the special challenge of providing for a membership spread across Colorado, Utah, Wyoming, and the northern 2/3 of New Mexico. If you live in one of these areas, please volunteer to become a contact for those in your area. For more info [email](#) our chapter president.

BRINGING MEMBERS AND CLUBS TOGETHER

The SEC prohibits the chapter from actively helping clubs and members to get together. So the following information is not a solicitation or recommendation.

Clubs looking for members: If your club has openings for new members, one good way to let others know is to list your club on the chapter's [Find-A-Club roster](#). To list your club, just send an email to contact@rmchapter.org with the following information:

- Meeting location; dates, times
- Club composition (all male or female; mixed)
- Name of club
- Contact name and email address

- Alternate contact name and email address

Visit the chapter's Find-A-Club [webpage](#) for more advice on how to connect with members looking for a club.

Members looking for clubs: If you are a BI member and would like to consider a club, the chapter maintains a [list of clubs](#) open to visits. The decision to visit or join a club is strictly between you and the club. The Rocky Mountain chapter makes no recommendations one way or the other.

WORDS OF WISDOM

"Stocks are not always worth what they sell for. Sometimes they are carried too high, sometimes too low, by mass excitement. Sooner or later, though, they move into line with value." – **Arnold Bernhard, founder of Value Line**