

# The Sgroi Financial

Volume 6 Number 4

Winter 2000 Newsletter

Planning for Today and Tomorrow

## ***Diversification, Risk and Safety***

The financial services world employs a broad variety of terms. Sometimes the meaning of these different words are not understood by the people using them, let alone those who are reading or listening to them. But behind those different terms are concepts and we try to make those concepts understandable so that you can exercise better judgment when making investment decisions.

To diversify an investment portfolio means having money invested in different types of assets. The concept being that should some of the assets perform poorly, others will do better and thus the potential for loss is reduced. The possibility of losing money or seeing an asset lose value is referred to as risk. So by investing in different types of assets one reduces risk or increases safety. The down side being that as risk is reduced, the potential for gain is often reduced too.

It should also be noted that investments go up or down in value for many reasons. Stated another way, there can be and usually are different types of risk involved with any given investment. These various kinds of risk can effect the value of an investment, rapidly or gradually, over time.

An example of one type of risk, called *selection risk*, is illustrated when comparing the fortunes of Wall Mart and K-Mart, the two retail giants. Those who invested in Wall Mart ten years ago have seen their investment increase over ten fold, while collecting a cash dividend every three months. On the other hand, those who invested in K-Mart have seen their shares lose over two thirds of their value and have not received a dividend since 1995. In Wall Mart's case, the company has expanded and their profits, called earnings, have grown and the value of the company increased. For K-Mart it has been the opposite, the company has not grown, earnings have gone down and the stock's value has too.

Further examination shows that during the course of just this year, both K-Mart and Wall Mart are down about thirty percent from their highs at the beginning of the year. In addition, there are a large number of other stocks in the same boat. This would indicate a different type of risk, called *market risk*. What has occurred here is that the market in general has declined and that decline has brought down the value of our two chosen stocks, along with many

others. The upside of market risk is that stock prices will go higher during periods when the market is advancing.

Closely related to market risk, is what is called *economic risk*. When the overall economy starts to slow down, concerns arise about how much money companies will earn. When companies experience lower earnings, their stock prices usually go down, as was the case with K-Mart. When economic risk becomes an issue, it is generally the economy as a whole or major economic sectors, that are showing signs of slowing down or pulling back.

Another closely related type of risk is known as *interest rate risk*. In 1999 and the early part of this year, the Federal Reserve was very concerned about the economy expanding too fast and also that the stock markets were going up too high too fast. Their fear was that inflation would increase, which is another type of risk - *inflation risk*. Their solution was to increase interest rates. The result was, arguably, to slow the economy down by making money more expensive to borrow. This caused business and consumer spending to slow down or at least not increase as fast as they had been. The market then seeing earnings slow down "decided" that stocks would not be worth as much because the companies wouldn't be earning as much.

So you could say that interest rate risk was used to prevent inflation risk. This Greenspan strategy, I feel, has failed. I think he went too far in raising rates. The good news is that he'll likely wake up from his nap and lower rates soon. This is normally very positive for the stock market.

There are other types of risk, quite notably *government or legal risk*. See the case of Microsoft, which was taken to court because the government thinks it's a monopoly. Microsoft's stock has lost nearly half of it's former value.

These are just some of the factors to be considered when making investment decisions. Diversifying ones portfolio can help to reduce the risk. But it is important to remember that the greatest rewards often go to those who are willing to take risk over time.☺☺☺

***You are cordially invited to an informational seminar  
featuring***

***Leo Wells  
of  
Wells Real Estate***

***Founded in 1978, Wells Real Estate was included in the  
book "The 105 Best Investments for the 21st Century".***

***Leo has appeared on CNN to share his real estate  
expertise with the world. He will be presenting informa-  
tion on how Wells Real Estate fits into a  
diversified portfolio.***

***Come join us on Thursday, January 25th from  
6:30. to 9:00 p.m.***

***Kotecki's Grandview  
4685 Seneca Street  
West Seneca, NY 14224  
Refreshments will be served.***

***RSVP: 674-6700.***

***Leo is both dynamic and loads of fun.  
Call soon as seating is limited.***

# A personal letter from Joe

Dear Friend,

*Happy Holidays. It's so hard to believe that another year has come and gone. The nice part is that the holidays are here and this is my very favorite time of year. I hope this season finds you and your loved ones in good health and spirit.*

*What a year it has been! As we go to press, it appears that the presidential election process has finally reached a conclusion. The uncertainty of this election has created significant instability in the financial markets. Added to this was a genuine concern about corporate earnings, especially in the technology sector and the markets experienced a sharp correction - the worst in a long time. Recently, thank goodness, the markets have begun to stabilize, especially the NASDAQ. I feel that this correction went too far and there are now loads of bargains out there. We'll survive this election process and Greenspan will likely lower interest rates soon, so I believe the worst is behind us. It is important to remember, for us long term investors, that this may be a very nice opportunity to invest in our favorite funds at a discounted price. The old adage of "buy low, sell high" is sometimes forgotten when the market is down.*

*Our radio show, "The Sgroi Financial Hour", continues to grow in popularity and is becoming quite the success. We are heard on WWKB (1520 on the AM dial) from nine until ten every Saturday morning. A number of you have called and I thank you for doing so. If you have any questions or would like a particular topic discussed, call us live, on the air at 803 - 0321. We would love to hear from you and your calls add so much to our show.*

*In addition, you can always contact us via e mail. Our general office address is [info@sgroifinancial.com](mailto:info@sgroifinancial.com). Each of the planners and staff have their own individual addresses which are listed on the back page. E-mail is a very convenient and efficient way to communicate. It's so easy even I use it (my address is [joes@sgroi.com](mailto:joes@sgroi.com)). So if you want to get in touch with us, the e-mail is there for you. We try very hard to maintain communication with you and want to make it as easy as possible for you.*

*On January 25th, we will be hosting another informational seminar. This one will feature Leo Wells of Wells Real Estate Investments. Leo is a dynamic speaker and a lot of fun, but more importantly he is a nationally recognized leader in the investment industry whose real estate investment funds have benefited tens of thousands of investors across the country. Nearly half of the worlds wealth is invested in real estate. Don't miss this opportunity to hear from the man I consider to be the number one real estate mind on the planet. Call us now to reserve your spot as seating is limited.*

*We conduct these seminars to provide you with an enjoyable way to educate yourself on various financial planning and investment subjects. In most instances we are able to bring in nationally prominent experts to make the presentation to you. I hope that you will both enjoy and benefit from them. These programs are just one additional way we can work together to help you achieve your financial goals.*

*All the best to you and yours for the happiest of holidays and an awesome ☺ new year,*

**Market Changes! Buy - Sell?**

**By Jeffrey Hahn**

*We all know that investments fluctuate in value and that means they do go down as well as up. Illustrating this is that over the last thirty years there have been eight "bear" markets, which are time periods when the market has dropped twenty percent or more. There have also been eleven "bull" markets, which are time periods when the market goes significantly higher. The bear markets lasted eleven months on average while the bull markets lasted over three years. Those bear markets saw average losses of about thirty percent while the bull markets saw gains averaging nearly ninety percent.*

*It's hard to see account values go down. But, in the main, only those investments that can go down also have the potential to go significantly higher. In the short term, no one knows which direction the stock market will go, but in the long term, we believe the market will go up and we want you to benefit from that. So when the market changes, consider the long term when thinking about buying or selling.*

**403(B) Corner**

**By: John Clouden**

*During any down market the outlook can be grim. In the midst of the worst market performance since 1973/74 the view can become down right scary. This can be especially true to those individuals that just started late last year or this year.*

*The biggest fact that is missed when watching the stock market go down is that when 403(b) participants are investing every pay check into their mutual funds they are buying at a discounted share price, therefore purchasing more shares. Over time, one of the best things for all investors is to own as many shares as possible in a good quality investment and stick with it. All of the experts agree that the best way to invest is to systematically invest (dollar cost average\*) over time and keep your money going to good mutual funds with quality managers and give yourself time to reap the possible rewards.*

*Remember that when the market is down you are buying at "sale" prices and you are really getting more for your dollars..*

\* Systematic investing does not guarantee a profit or protect against market loss. Investors must consider their ability to continue during periods of low prices.

**Our E Mail Address Book**

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Listen To  
"The Sgroi Financial Hour"

Heard Weekly on WWKB - 1520

Saturday Mornings from  
9:00 to 10:00  
803 - 0321

Call in with your financial  
planning questions  
and join the fun.