

# The Sgroi Financial

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Planning for Today and Tomorrow

## “The Market”

All so often, especially in times such as these, we hear things about “The Market”. The Dow, the Nasdaq, the S&P, it’s up or down, it’s a bull or a bear. Information is available on the TV, radio, newspapers, newsletters, magazines and the internet twenty four hours a day. With all this data around, we thought it might be helpful to step back and look at what “The Market” actually is.

The purpose of “The Market” is to provide corporations and governments with a way to raise substantial amounts of money for extended periods. This is called *long term capital*.

Corporations often find themselves needing to raise large sums of money, most typically to expand business. Their basic choices are to borrow or sell a portion of the business to other investors. To borrow, they could go to a bank but a better way is often to borrow from a number of different lenders. So the corporation issues a document to the various lenders that states how much was borrowed, for how long and at what interest, an I.O. U. so to speak. That document is called a bond.

Should the corporation decide, for whatever reason, that they prefer to raise money by selling a part of their business, they issue stock. When this happens, the company is divided into a large number of small pieces and those individual pieces are sold off to whoever wishes to buy them. Those little pieces are called shares and the owners are referred to as shareholders or stockholders. Put another way, the shareholders are part owners of the corporation.

Once the corporation has sold the shares, the money is taken and put to work. From that point forward, the buying and selling of the shares goes on between the investors. The corporation, with a few notable exceptions, has no direct participation in the daily trading of their stock. So when you see, for example, that some eighty five million shares of GE changed hands on a given date, it means that certain investors sold those shares and others bought them. GE, in most cases, was not directly involved in the transactions at all. The prices are set by the investors and are based solely on what price the buyers are willing to pay and at what price the sellers are willing to accept. That specific stock price, which changes from moment to moment, is a very loose

interpretation of the *actual* value of the company, but it is an exact measure of its *perceived* value on the part of the investors involved at the time of the trade.

This buying and selling of corporate shares and the cumulative change in the thousands of different stocks being traded is what is meant by “The Market”. Measuring “The Market’s” activity has become part science and part art form in itself. There are many well known ways of going about it and we’d like to explain a few of them.

**The Dow Jones Industrial Average.** The Dow is a stock market index developed over one hundred years ago by the Dow Jones Publishing Company. They are the people who publish The Wall Street Journal, Barron’s and other financial publications.

The Dow Jones Industrial Average is based on the stock price of thirty of America’s leading companies. The current list is as follows: AT&T, Alcoa, American Express, Boeing, Caterpillar, Citigroup, Coca Cola, Disney, DuPont, Eastman Kodak, Exxon Mobil, General Electric, General Motors, Hewlett Packard, Home Depot, Honeywell, IBM, Intel, International Paper, Johnson and Johnson, JP Morgan - Chase Manhattan, McDonalds, Merck, Microsoft, Minnesota Mining and Manufacturing - 3M, Phillip Morris, Proctor and Gamble, SBC Communications, United Technology and WalMart.

The companies making up the Dow change over time. General Electric is the only company remaining from the original list of 1896. Boeing and McDonald’s were added during the eighties and more recently Intel, Home Depot and WalMart replaced such companies as Goodyear, Sears and Woolworths.

The prices of these stocks rise and fall daily. When their combined values increase, the Dow goes up. Conversely, when their prices fall the average goes down. The theory behind this average is that these thirty stocks are a good indicator of the market in general and to an extent they are.

**The Standard & Poor’s 500 Index.** Standard and Poor’s is an independent financial information, analysis and rating organization. With roots dating  
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## “The Market”

back to 1860, it is now part of the McGraw - Hill Publishing Inc, a major American publishing company.

The S & P 500 Index is based on the stock price of five hundred of the largest corporations of the U.S. economy. For obvious reasons we won't list them all but an important point to keep in mind is that the list changes fairly regularly but not automatically. To illustrate this let's look at the case of Rite Aid Corporation. At one time Rite Aid's stock sold for close to \$50 per share. With over 490,000,000 shares outstanding the company's stock was worth some twenty four billion dollars in total and Rite Aid was one of the stocks included in the S&P 500. Currently the stock is selling around \$8 per share. The total value of the stock (called its capitalization) has dropped to under four billion dollars and the stock is basically not big enough to be part of the S&P 500 anymore and was removed from it some time ago.

Like the Dow, the S&P changes with the value of the stocks that make it up. Indeed, that is its purpose, to give a numerical indication of the overall changes going on in the market.

**The NASDAQ Composite Index.** The initials NASDAQ stand for the National Association of Securities Dealers Automated Quotation system. To understand how this works requires some background information. Certain stocks are traded at a specific place called an exchange, the most notable being the New York Stock Exchange. (Currently about 3,000 stocks get traded on the NYSE and there is, of course, an index for measuring their combined movement called the NYSE Composite Index). Most older, well know companies of the US economy, like GE, GM, Ford, AT&T, WalMart, etc are traded at the NYSE. The key point to remember is that an order to buy or sell one of those stocks always goes through one place, the New York Stock Exchange, located on Wall Street in Manhattan.

Other stocks, especially newer companies are not traded on an exchange, but they are purchased from a dealer. A story may illustrate this best.

In 1975 two guys got together and bought a computer. They built it themselves and were very impressed but realized they needed software to use the computer to its capacity. So they started writing software and then started selling that software. Somewhere along the line they formalized their business structure, took on employees to help handle all the work and the company grew. To help pay those employees, they gave them small pieces of the company, shares of stock. Later as they continued to

grow and wanted to raise more capital, they met with a securities dealer and worked out the arrangements to offer their company's stock to the public. The dealer, who was a member of the National Association of Securities Dealers - the NASD, then used its resources to make the stock known to the investing public and started selling the stock to them. The money raised was used to expand the company and the stock did well with many investors wanting to own it. People all over the country could buy it by contacting their securities dealer. The dealers could get current price information through a computerized network of dealers throughout the country. That computerized network is the National Association of Securities Dealers Automated Quotation System, the NASDAQ. So instead of having the buying and selling take place at a specific location, the trading can be done throughout the country by means of computer. The company in this case was Microsoft, but it could just as easily have been Intel, Sun Micro Systems, Apple Computer, Starbucks, Cisco or a little startup that no one knows about yet. Many of the great companies that have become so well known and are now some of the largest corporations in the world are still traded only through the NASDAQ system.

There are over 4,000 companies including those just named that make up the NASDAQ Composite Index. It was first started in 1971 and has grown tremendously since. The prime thing to keep in mind is that companies that make up the NASDAQ are not traded at an exchange. So a company like Microsoft may be part of the Dow, The S& P 500 and the NASDAQ composite Index, but it is not traded at the New York Stock Exchange.

There are literally dozens of other indexes, such as the Wilshire 5000 Equity Index which includes five thousand different stocks, the Russell 3000, the Dow Jones Utilities Index, the Dow Jones Transportation Index and others. The point is that they are all simply measurement systems designed to help illustrate what the market or a segment of it is doing.

Stocks rise and fall, day to day, year to year, that's the market. Corporations come and go. Most of the original Dow no longer exists. But the Dow today is hundreds of times its original value and we believe that it will grow even more in the years and decades to come.

Change provides the whole basis of any market, not just the stock market. We hope this information helps make today's market changes more easy to understand. ☺☺☺☺

# A personal letter from Joe

Dear Friend,

*The tragic events of September eleventh will likely change our society for generations. I want to extend my personal condolences to all of those who have lost a loved one or a friend. In speaking with so many of you, it seems that most everyone has some personal connection to this tragedy or at least knows someone who does. One of our favorite investment firms, Oppenheimer Funds, was headquartered in the World Trade Center. Thankfully, they all escaped unharmed. Many of those folks have become friends over the years and in our own small way we feared for their safety and share the impact. Organizationally, Oppenheimer had a very comprehensive contingency plan and was performing fully as soon as the market reopened. In addition, their main client service center is located in Denver and all account records are backed up and kept very secure.*

*I would also like to extend my personal support to the President and our national leaders. The challenges we will face as a country are likely to be not only difficult but without precedent. The future is always uncertain but I hope and expect that we as a society will be able to unite and not just handle this threat but make the world a better place in doing so.*

*Toward that end, I feel we all owe a debt of gratitude to the police, fire and rescue workers, both professional and volunteer, who have performed so heroically. It's great to see them get the recognition and thanks they so heartily deserve.*

*As I am sure that you know, the stock market has been incredibly volatile . Indeed the four day shutdown from September eleventh through the fourteenth was the longest in its history and the first since the end of World War II. The overall calm you and most of the nation have exhibited with regards to your equity investments is not only admirable but also highly commended. This has been quite an emotional roller - coaster. Our country has survived great tragedy before and will do so now and in the future. It is my belief that the market will survive as well. As mentioned in my letter of September twelfth, I have been investing in U.S. equities these last few weeks and will continue to do so. I not only feel patriotic in doing so but I also believe there are great companies out there at very reasonable prices. I have confidence in our nation and the stock market and have high hopes and convictions that history will repeat itself (see the enclosed bar chart). There are no guarantees, it is the stock market after all, but as long as we stick with our long term game plan we should come out of this just fine.*

*The Saturday morning radio show we have hosted this past year has been a great success. However, we have taken the show off the air during this hectic time not only because of heavy business demands but also due to other potential options and alternatives (☺) we are pursuing. We will keep you posted.*

*Finally, I would like to thank you for the confidence and support you have shown us over these last several months. We work hard to not only service you but to keep you informed. We welcome your calls and encourage you to come in and meet with us regularly.*

Best Wishes,

A handwritten signature in black ink, appearing to read "Joe". The signature is stylized with a large, looping initial "J" and a smaller "oe" following it.

## My trip to New York

By Jeff Hahn

Over the weekend of September 23rd I flew down to New York City for an annual conference. I wanted to report to you that the flight was routine, check-in, while more thorough, was done very efficiently and did not take an excessive amount of time.

The meetings took place in mid town Manhattan, about thirty five blocks from the disaster sight. Personally I did not see the area, not even from the air, as my flight seemed to have been routed around it. I did however speak with some good friends who have been volunteering with the rescue efforts. The damage they described was beyond comprehension.

The financial community which was so badly hurt is pulling together and getting back on its feet. It's amazing to hear stories of competing firms taking extra steps to help each other out in order to ensure the clients are well served and that the system is maintained.

Some of you have been a little anxious. That's understandable, especially in times such as these. Working together is how we'll get through all this. Many of you have called or been in to see us. If you have not, please feel free to do so. Markets usually recover, we believe this one will too.

## 403(B) Corner

By: John Clouden

Over the last eighteen months or so, we have been asking for your patience and to keep the long term approach to your TSA investments. The recent horrific events in New York City and their effects on the stock market have dealt us another blow financially. The tendency may be to panic and to pull your money to cash. I believe this would be a big mistake for the long term. If history is any guide, you don't "protect" long term investment capital by taking it out of the equity market but by leaving it in and thereby keeping it exposed to the healing power of time - to the resilience of the American economy and of the markets which reflect it.

We believe very strongly that our economy and therefore our stock markets will recover from this period in similar fashion as it has in the past.

Investing with salary reductions on a systematic basis (dollar cost averaging) into equity investments has been a great way to invest in the past. We believe it will continue to be a very good way to invest in the future. As always, please make sure to make, at least a once per year visit to our office. If you have not been in for awhile, give us a call and schedule an appointment.

## Recipe for Success

By Marie DiPasquale Szeffler

### *Marvelous Marie's Lasagna*

Sautee 1 large diced onion, 2 diced cloves of garlic, 2 dices green peppers, 8 large sliced mushrooms, in a skillet until brown. In a large pot combine 4 large cans of tomato sauce, 2 large cans of puree, 4 small cans of tomato paste and add water per each can. Add sauteed ingredients to sauce. Cook over low heat for several hours.

Cook and simmer 2 lbs. of ground beef mixed with 1 onion, 2 cloves garlic and 1 green pepper. Salt and pepper to taste. Boil 1 lb. of lasagna noodles until partially cooked. Using an 8x10 square pan, grease the bottom lightly with olive oil. Layer strips of noodles on bottom, then add your ground beef covered with sauce. Layer on ricotta cheese and repeat, layering each item until the pan is filled to the top. Spread extra sauce on top and cover with Mozzarella cheese.

Bake in the oven at 350 degrees for at least 1 hour then eat to your hearts content..

## They Said It

"Most people get interested in stocks when everyone else is. You can't buy what is popular and do well. Look at market fluctuations as your friend rather than your enemy - profit from folly rather than participate in it". Warren Buffet

"We're all long term investors until you get a market like this. Right now the investors most important organ is the stomach not the brain". Peter Lynch

"...in the short-run, markets are driven by crowd psychology. In the long-run they are determined by economic fundamentals. The long-term fundamentals of the American economy remain sound". Dr. David Kelly, Putnam Investments