

## **Reading Eagle – Tuesday, September 7, 2010**

### **Doing the homework of personal investing**

**It's not easy to learn what you need to know, but it's important to start somewhere**

By Karen L. Miller  
Reading Eagle

When mom nagged you to study before taking a test, you knew what to do.

When financial professionals tell you to do your homework before buying an investment, you might not be so sure what they're talking about.

You and your money can hide under the mattress only so long and, sooner or later, you need to learn a few basics about buying a stock or mutual fund.

The golden rule of investing: Don't buy anything that you don't understand. Throwing money at a hot tip is another good way to throw away your money.

Learning about investing isn't easy either. A few financial professionals opened the book on the type of homework they do when looking at an investment.

"If you aren't starting with an investment plan, it's time to start one," said Donald G. Bennyhoff, senior investment analyst at Vanguard Group, the mutual fund giant. "The plan should have objectives and constraints, and an understanding of one's risk tolerance.

"It will be a valuable guide, built on logic, not emotional. As you develop this, put the time and effort into it. Some investors tend to buy a fund based on past returns, and then they realize, 'I didn't do as much homework as I should have,' and they may be more apt to change their direction for no reason other than it didn't perform based on past returns. That's where if they put the work into a plan upfront and went into it in a thoughtful, methodical pattern, they would have a valuable guide."

Bennyhoff said an investor should ask: What is my time frame? What type of risk am I willing to tolerate?

Most of what people need to sort out is their goals: What do I want to do? What do I need to accomplish with my portfolio to get me there?"

"Doing the homework, from my perspective," said Thomas W. Weik, owner of Weik Investment Services, Wyomissing, "is that we work very hard to understand what's going on in the business world and we try to understand the different businesses that trade on the stock exchange.

"In terms of buying stock, which requires the most research, we prefer to find companies to invest in that have a business advantage and then after that, if the company has any

advantage over its competitors. If they have an advantage, we try to determine if that is going to endure or if it is fleeting.

"Obviously, we look for persistent advantages and particularly attractive opportunities. Another big hurdle is, what is a fair price. Finding an attractive investment and determining its fair price, not overpaying, and hopefully buying at a discount."

Weik, a registered investment adviser who manages portfolios for a fee, said he was influenced by the value-investing philosophies of billionaire Warren E. Buffett and Buffett's mentor, the late Benjamin Graham.

Perhaps Graham's most important concept was margin of safety, Weik said.

The concept is derived from buying a stock at a discount as to what the underlying company is worth, Weik said.

"For example, if we are looking at buying stock, and we believe the business is worth \$10 billion, we divide it by the number of shares outstanding, and determine the value on a per share basis," he said.

Then he takes into consideration that bad things could happen to the company, the sector and economy. If he still sees a margin of safety in the price, he may consider buying it.

**Terry L. Morris, senior equity manager of National Penn Investors Trust Co., Wyomissing, who, like Weik, is paid for managing investors' portfolios, said: "First, let me say that it's true that investors or potential investors should do their homework. But maybe they're not up for that. Maybe they don't have the appetite to do their homework. Then they should stay out of the market. Don't take Aunt Millie's tip about a stock.**

**"Secondly, don't be intimidated by the need to do homework. There's more information today on the Internet than there ever was.**

**"Thirdly, it's not important to find a stock, but a diversified basket of stocks. Don't buy one or two or three stocks, but deliberately diversify in different sectors. And not 10 different tech companies because if they all go down, that in itself could cause trouble.**

**"So if you don't have the appetite, maybe you should buy a mutual fund. You can do your homework on that, too. With a mutual fund, you have a manager. You have to decide if you like what approach that manager takes. You no longer have to worry about what is a good stock, but (whether you like) the approach."**

Weik added, "I don't think the typical individual has the time - and oftentimes the skills - to do the homework. What they should do is either find a manager - someone who will

work with them directly - or a mutual-fund manager where they understand the basic approach of the fund.

"They should not invest in anything they don't understand, but even if they don't know how to pull all the levers themselves, as long as they understand ... the approach, the objective and (whether) that is in keeping with their own objective."

Knowing the record and background of the manager is very important.

"Given what happened with Bernie Madoff (who pleaded guilty to fraud), know the people involved with the investment: Do they have a good track record, not just in good times, but in bad markets? Have there been any disciplinary problems?"

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