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# Key Investment Tips for Managing Your Money Right in 2002

Last year, the capital markets anticipated and confirmed that our economy was heading into a recession. The capital markets always anticipate fundamental structural changes in the economy, and often they are right. In 2001, the capital markets re-evaluated the prospects of almost every company in the U.S. economy to reflect a decrease in future operating earnings. However, with this broad-brushed re-evaluation of the economy, all securities were downgraded when not all of them were losing intrinsic value.

For example, the hospital, pharmaceutical and biotechnology industries were not affected by the recession. Thus, intelligent investors had an opportunity to invest in downgraded companies whose operations were not actually affected by the poor economy. The value of any asset should be performance, based on its ability to generate free cash flow. Companies that still have the ability to produce free cash flow will fare well in an upturn. So, what does this mean for 2002?

## Back to Basics in 2002

The basics of investing haven't changed. In the vast majority of cases, investors must be able to do the following in order to make smart investment decisions:

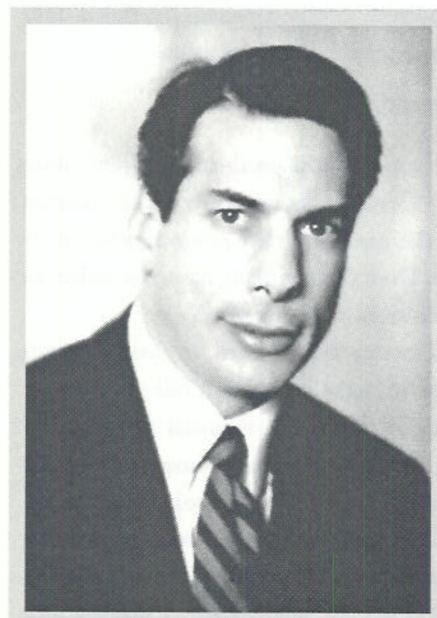
• *Select sectors of the economy that will fare best* over the next several years due to growing demand, then *dig down and find companies* in those sectors that will perform the best;

• *Be predictive.* An investor must be able to intelligently "predict" whether or not the operations of a company will be successful in the future (What products will a company be selling in two years? What is in the R&D pipeline today? Will these products sell? Will they work?).

• *Be disciplined* enough to invest *only* when the risk–reward ratio greatly favors investors.

## How Doctors Tend To Invest And Their Role in the Process

Physicians and PhDs are among the most educated professionals in our society. Because they have direct experience in the medical sector, they tend to invest in what they know. Our clients are MDs who often come to us for help with the



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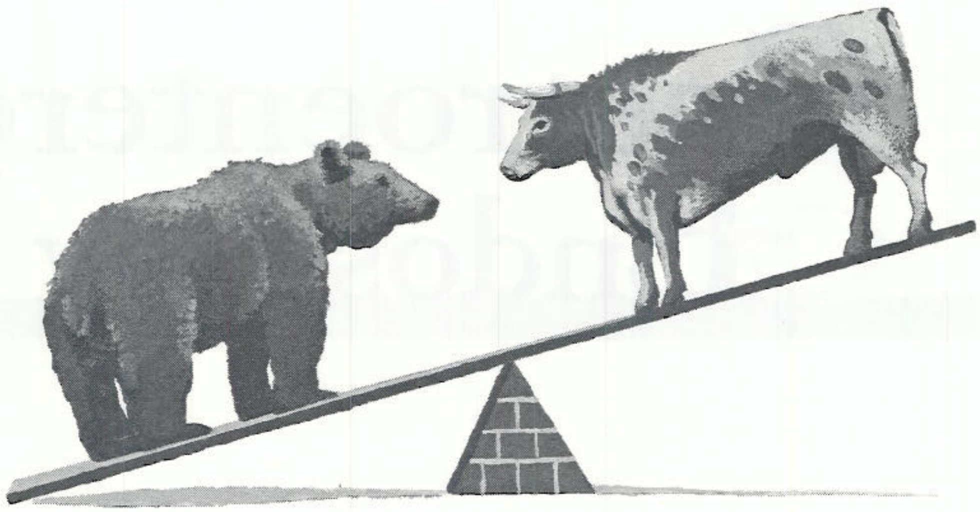
second half of the investing equation—financial analysis. Financial statement analysis, review of management, competitive offerings and evaluation of a company's manufacturing and distribution channels are not realistic for a doctor to conduct on his or her own. First, they don't have the time, and second, there probably is very little interest in getting on a plane to visit with each and every one of these companies to conduct this research. Yet there is no denying that comprehensive research must be conducted in order to make smart investment decisions.

Picture this: A doctor, who discovers a new instrument used in a critical operation or prescribes a new drug in treating his or her patients, believes that the company manufacturing the tool or drug may be a good investment. Many doctors invest based on this information alone. However, as noted previously, this is only the first half of the equation.



### Investing Process

• Find a great product that adds value.

• Conduct thorough financial analyses of the company that produces the product. Does the company have the ability to execute its business plan?

Doctors either need to have enough time to make investing a full-time job, or they need to find a financial adviser to do this legwork for them. Whose business is it to go out and conduct research and analyses? It is the job of the investment professionals, and none of them should do anything less for their clients. Consider this: Most of us use mechanics for car maintenance. We could very well do this ourselves, but we do not have the time, nor do many of us have the interest or expertise.

Just because doctors have firsthand experience with a product does not mean that they can conduct financial analyses on their own. Likewise, just because we can evaluate a company's balance sheet does not mean that we can fully understand how products work—an important part of making an intelligent investment decision. Collaborative Investing, a process that the Abernathy Group adheres to, brings together professional and financial expertise, helping to make the smartest investment decisions possible.

### Key Factors for Investors To Keep in Mind for 2002

• Never act on your investments when you might make an irrational decision. Avoid decision making during difficult market environments.

• Keep a long-term focus when investing. Investing over the long term reaps greater rewards overall and is more tax efficient.

• Manage your own expectations when investing. Remember that you invest in individual companies, not "the market." You must set rational and reasonable expectations for your investments; otherwise, you will *always* be disappointed.

• Do your research now, before you put any money at risk. Make sure that you are armed with good information about your investments. This can reduce the risk of making a poor decision. If you were to consider buying someone's practice, would you pay for it first and then test the equipment and review the patient base?

• Continue to monitor the progress of your investments. Investing is just like having a business. You must monitor its performance and make intelligent decisions in order to be successful. If you don't have time to do the work, try to hire the best financial adviser to do it for you; otherwise, you are taking a large risk with your assets.

In conclusion, I leave you with the wisdom of Warren Buffett, chairman of Berkshire Hathaway and one of the world's greatest investors to date: "The more knowledge you have about your company, the less risk you are likely to be taking."[1] So make sure that all of your investment decisions are backed by comprehensive research and remember that, even in a tumultuous market, good investment opportunities abound.

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[1] Robert G. Hagstrom, *The Warren Buffett Portfolio.* New York, NY: John Wiley & Sons, Inc. 1999:32.