

You're Not Going to Believe This!

In this article I am going to share with you a personal story. I find it hard to believe, but it is true and it is illustrative of a major problem we face in our country.

At the beginning of August I had the misfortune to find myself in the emergency room at Stanford Hospital. I knew I had an inguinal hernia and had already met with a surgeon who decided I could wait until late September for corrective surgery. Thirty-six hours later I realized something was wrong and went to see what it was. It turned out that I had a fully obstructed bowel and required emergency surgery.

I was very fortunate. After twelve hours of tests, including an x-ray and a CT scan, I was able to get into one of Stanford's 21 operating rooms. By 8:30 that night, sixteen hours after I arrived at the emergency room, I was out of the recovery room and in my semi-private room. Thirty-six hours later I walked out of the hospital with a very successful outcome. Fortunately, I had decent health insurance.

The hard-to-believe news recently arrived: the hospital bill. I want to share with you my bill -- the actual

numbers. Take a deep breath.

Semi-private room for two days \$11,630

Pharmacy (painkillers, etc.) \$1,660

Emergency Room (12 hours) \$5,204

CT Scan \$7,947

X-ray \$489

Operating Room \$12,939

Anesthesia \$3,182

Post Anesthesia \$3,482

Misc. Lab \$3,618

If I had not had insurance, I would have been fully responsible for **\$50,431**. But here is the unbelievable part- Stanford, based on a contract with my insurer, accepted, as payment in full, \$5,733 -- a discount of over \$44,690! My co-insurance payment is \$508, only one percent of what I would have had to pay as a private patient.

How can it be that a hospital bills almost ten times what it **knows** it will get paid? If the hospital's costs, and a fair profit would make the \$50,000 bill "reasonable," how can it afford to take only 12% of that number?

FINANCIAL CATALYST GROUP

4030 Moorpark Avenue
Suite 105
San Jose, California 95117

Phone: 408-261-7600
Fax: 408-273-6399

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Financial Catalyst Group was founded in 1977 to help successful people articulate their goals, and realize their dreams to protect and preserve their hard-earned wealth. At Financial Catalyst Group we provide unique Wealth Architecture™ services that result in the implementation of value-added plans for the responsible preservation and transfer of wealth through the generations. We specialize in working with successful people to solve probblems and simplify their lives around their wealth. We work closely with these families and their advisors to form a strong, results-oriented team.



Wealth Architecture™ Digest

Often people do not plan because they see only what is, and they do not have a vision of what can be. Something is always possible. We believe that, with vision, the possibilities are almost unlimited.

Values, Vision, and Wealth

In the column that follows on investor personalities I discuss how "investment personality" can affect the Wealth Architecture™ process and a person's expectations. I have found it increasingly important to focus on values and vision as a part of the entire consultative effort.

Many people will set financial goals and ask us to help them meet those goals, without first determining what values are being met by reaching the stated goals. If we all understand what the most important values are, *and* why they are important, then we can create a vision that determines the goals to realize those values. Too often people plan only in the realm of "numbers," without any attention to why the given amount is the right amount. I think this is backward.

As most of our clients have children, part of the planning we complete over time deals with *wealth transfer*. Clients want to leave a legacy, but I think that many have not looked deep inside themselves and identified what is the most valuable thing they can pass down to younger generations. If I asked you to answer that question, how would you respond?

Well, I asked my wife that question, and she answered "...understanding the values of working, sharing, personal accountability, and loving..." In other words, the most valuable legacy to pass on is not financial capital, but the intellectual capital of life's lessons and personal values. In her book, *The Golden Ghetto*, psychologist Jessie H. O'Neill wrote, "Wealth is like intelligence -- it is nice to have, but it doesn't mean your problems are

over. It's how you use it."

On October 26, 2007 the *New York Post* reported that two years ago David H. Brooks, CEO of DHB Industries threw a major bat mitzvah party for his 12-year old daughter. It cost a reported **\$10 million**. It featured stars like Aerosmith, 50 Cent, and Kenny G who entertained the 300 guests (that's \$33,000 *per person*)! I have to wonder what message that sent to a young girl about the value of money. The travails of Paris Hilton, Lindsay Lohan, and the Spears sisters illustrate some of the problems.

After a number of embarrassing episodes in the life of Paris Hilton, her grandfather Barron Hilton announced that he would give 97% of his estimated \$2.3 billion to the Conrad N. Hilton Foundation that his father had founded. This will reduce Paris' inheritance to as little as \$5 million after taxes (source: Telegraph.co.uk 12/28/07). There seems to be a connection between excessive financial resources, underdeveloped personal values around wealth, and fanciful spending.

The new book, *Richistan*, by Robert Frank discusses the life of the new rich in America who spend without regard to "value." He documents a trip for a "30-something dot-commer who wanted to 'experience' Scotland. The cost of the 10-day trip: \$280,000" (pg. 145). He writes about \$800,000 per week yacht charters and \$760,000 *watches!* But he also notes that, "According to a 2005 study, less than half of today's Richistani's (people worth more than \$1 million), agreed with

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*The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. Indexes are unmanaged and cannot be directly invested into. NFP Securities, Inc. does not offer tax or legal advice.

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the statement that 'wealth has made me happier.' (pg 203)"

Those successful people who have taken the time to think about what is *really* important to them about money -- their values around money -- are generally happier and more relaxed because they understand *why* they are investing, spending, or giving.

Over the years we have been fortunate to have worked with people who have been financially successful while maintaining balance in their lives. They have avoided the trap of defining themselves by the amount of their net worth, and have prided themselves at being mentors for friends and family. While it can be

Affluent Investor Personality and the Investment Process

Over the past several months I have been working with CEG Worldwide, LLC to understand how better to serve our clients. One of the more interesting things I have learned is that what people expect from their key financial advisor is heavily influenced by their personality as it relates to their money, its uses, and their understanding of the investment world.

Those people who answer the question "What is important to you about money?" with an answer like "taking care of family..." are usually what is known as *family stewards*, according to CEG Worldwide's research. An answer like "having enough to be independent of work and others, and do what I want..." is indicative of an *independent*.

Individuals may also have strong secondary personality traits. For example, those who do not like to get involved in the decision-making process of their investments are considered *investment phobics*, and those who are extremely concerned about others knowing anything about them or their money are *anonymous*.

On the opposite end of the spectrum of personalities are *gamblers* and *innovators*. These personality types enjoy things like day trading and looking for new ways to make more money. They tend to focus on raw performance and generally exhibit much higher risk tolerance

difficult to maintain focus on what really matters in an era where some people go from middle class to ultra wealthy with a lucky IPO, we are dedicated to helping our clients think through the choices they have.

Years ago our firm focused on helping clients save taxes -- income taxes, capital gains taxes, and transfer taxes. That was helpful, as no one likes to pay more than necessary. However, by focusing more on values and vision, we have noticed that clients have greater appreciation for the results. Facts, numbers, and performance are all important planning variables, but outcomes must include a sense of fulfillment, and that can happen only when values have been discussed, defined and met.

than the family steward or independent.

The research indicates that roughly half of affluent investors are family stewards and independents. This fits well with my personal philosophy, so it is easier for me to relate to these people. Stewards and independents want to be sure that they (with a trusted advisor) run their money, rather than their money running them. Along with the phobic-inclined, they do not want to spend a great deal of time managing their money, preferring to spend the time with family, friends, on favorite hobbies.

While this may not strike you as important, our experience indicates it is a key aspect of the relationship between clients and advisors. We have decided to work only with family stewards, independents, and phobics as we speak the same language, and in so doing have an increased likelihood of adding value through our advice and service.

The Wealth Architecture™ process we employ at FCG is focused on building relationships with clients that are structured to help them accomplish their values-based goals. Too many firms attempt to define their value propositions as a special ability to generate the best returns by researching stocks, mutual funds, or money managers. This approach often misses the primary, per-

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sonal values and goals of the family stewards and independents.

It is valuable for us and our clients to understand the role of investor personality in the wealth management

process. Different things are important to different people, and if we are not on the same page, it becomes increasingly difficult to maintain a successful relationship. The process is not about what is important to us. It is all about what is important to those with whom we work.

Testing Current Opinion

The past few months have rattled a lot of people's confidence in the markets, due in part to headlines that tout the daily swings in the domestic stock markets. Many pundits talk about the increase in "volatility." Rather than accept or reject these statements, I decided to research the issue.

First, there is actually a measure for volatility. It is provided by the Chicago Board of Options Exchange (CBOE) and it "measures market expectations of near term volatility conveyed by stock index option prices. Since volatility often signifies financial turmoil, VIX is often referred to as the "investor fear gauge" (Source::CBOE.com). So the question is, "is the recent volatility all that high by historic figures?"

To research this I went to finance.yahoo.com where the historical prices are readily available. I captured weekly closing prices from the beginning of 1990 through December 3, 2007. The data cover 935 weeks with rising and falling markets, expansion and recession, 9/11, three wars, the tech boom and bust,

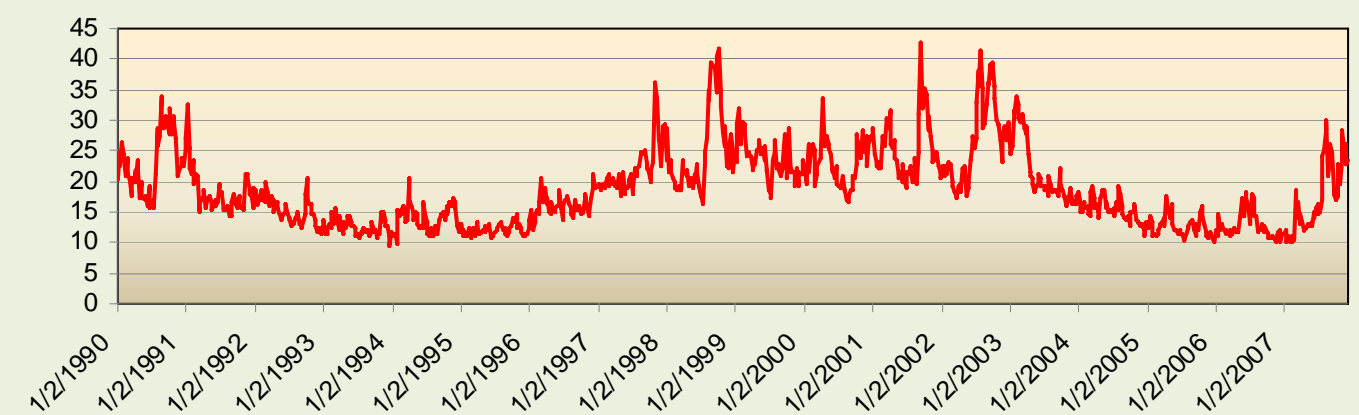
etc. – a great diversity of circumstances.

Here are some interesting findings:

- Only 15 weeks this year closed above 18
- Only three weeks this year have been in the top 100 of 935 weeks
- This year's most volatile weekly closing price was #55 of 935
- This year 17 weeks (out of 935) have been above the median
- Seven of the least volatile 100 weekly closing prices were this year, and the 3rd lowest out of all 935 was in February, 2007

While as you know if you'd read my columns over the years, I do not use this data to predict any particular future outcome. But this brief study was instructive in showing that the volatility we've experienced since August is neither unusual nor extreme. It does not say to me that we should disturb long-term strategic portfolios. My mantra remains, diversify and stay focused on the long term goals.

CBOE Volatility Index - Adj. Weekly Close



The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Indices are unmanaged and cannot be directly invested into.