MONTGOMERY CAPITAL MANAGEMENT

CAPITAL WATCH

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ON THE CLOCK: A GREAT WAY TO GIVE TO CHARITY

Many clients ask, "What is the best way to donate to charities?" One method is a donor-advised fund (DAF), like the Schwab Charitable Fund.

The concept is pretty simple. After making your contribution to the fund, you can take a current charitable gift tax deduction (your tax advisor can give you the particulars based on your tax situation). You can suggest non-profits you would like the fund to support, and typically the sponsor will do what it can to honor your request. Indeed you can enlist your children or grandchildren in the process, encouraging them to recommend causes to fund. This is a great way to promote lifelong philanthropy, starting at an early age.

You can start a Schwab fund with only $5,000, and additions can be made for as little as $50.

There are a few stipulations on grants from a DAF: you cannot use them to fulfill an existing pledge, you cannot receive anything of value in return, and any distribution must go to a public charity.

As always, please consult the appropriate providers for tax and legal advice.

UP TO THE MINUTE

Many investors are familiar with the concepts of ranking stocks based on Value or Growth. Value stocks are the bargain buys, the overlooked solid companies that have better financials than their stock prices indicate. Growth stocks are the high-fliers, the ones everyone wants to own, the often smaller companies that show amazing growth (though not necessarily any earnings).

During some market seasons growth stocks perform well and other times, value stocks do. Because there is no predictability, the best strategy is to stay the course.

Fewer investors are familiar with the concept of Momentum Investing, which is based on the principle that what is outperforming now will continue to do so. Think of Newton's First Law: every object in a state of uniform motion tends to maintain that state of motion. No wonder then that a growing body of research reveals that momentum can be an indicator of future strong returns.

Most Momentum Investing is relative strength based. This means you should periodically review your portfolio for changes so that you continue to own only top ranked stocks. These strategies keep you fully invested at all times because you can always find an asset that is outperforming others, even if that only means it is losing less! Our Variable Focus program follows a similar approach.

Momentum-based strategies are not foolproof, which is why it's important to evaluate them over several decades, not just the recent past. By incorporating risk management, portfolio losses can be minimized during periods of severe market stress.

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TIME IN THE SPOTLIGHT:

DO YOU CARE ABOUT

When you consider the topic of money, do you first think of green paper in your wallet? Or bank statements? Or your computer screen or smartphone displaying a series of digits? The answer revolves around the meaning of money, and for those of us who like green paper, that meaning is changing.

Banks push us to use online banking, despite growing instances of computer hacking. It's incredibly convenient, no question, but is it safe?

There is a downside to eliminating cash, mainly that you turn over access to your money to others. We take for granted that we can access dollars from an ATM but that convenience can be curtailed by either the bank or the government. How long would it take to withdraw all of your money at a $300 per day limit? There are already strong reporting requirements on cash withdrawals from banks, and those rules can be stiffened at the stroke of a pen.

Non-cash electronic transactions can easily be tracked. For instance, we see how advertisers do that already, without our consent. How do they intend to use that giant database of electronic transactions?

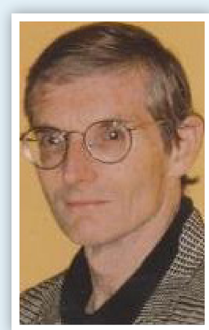
The most common response from authorities is that if you aren't doing anything wrong, you have nothing to fear. That's a nice sentiment, but it's not one our founding fathers would have shared. The ability to access and spend your money as you please is part of our personal freedoms. Unfortunately, it's not something we can take for granted.

R-E-W-I-N-D

In this issue's retrospective, we take a look at Paul Montgomery's interview (you might remember the cassette or CD – please contact us if you would like a copy), and his answer about how people connect with their money.

QUESTION:

WOULD YOU AGREE THAT EVERYONE'S FINANCIAL SITUATION IS DIFFERENT?



PMM:

Oh, sure. People are funny. They're much more particular about their money than they are about their bodies, because money represents a lot of emotional issues. Money represents their life's work, their future security, etc. so this is an extremely serious and sensitive subject. Everybody has certain things that make them comfortable--and certain things that make them very uncomfortable.

It's more of a psychological problem than a financial problem but it is still critical. The only point in having money is to be comfortable, so if people are not at ease with their investments, they're going to be dissatisfied--no matter how good a return they're making financially. You have to take care of their financial needs, but you also have to satisfy them psychologically--they must be comfortable with the process.