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A costly lesson from the "Mouth of the South"



Financial Thoughts

by John Schooler

Occasionally, we come across clients who are heavily concentrated in one stock. It may be stock in the company they worked for or it could have been inherited. Either way, tying up a large amount of your net worth in one investment is very risky.

In those situations, we recommend various strategies to diversify the holding or, at a minimum, take some defensive measures. Our advice is not always heeded because sometimes people become so attached to the stock that they lose sight of the risk. I would like to share with you a recent example of someone who became very attached to his stock and in the end, it cost him \$8.5 billion.

In early 2000, Ted Turner, the irrepressible "Mouth of the South," was riding high. The founder of CNN had, a few years earlier, sold his company to Time Warner. Time Warner had then merged with America Online. Turner's stake in AOL Time Warner was then valued at \$10.7 billion. Feeling flush, Turner pledged \$1 billion to the United Nations Foundation.

But then things started to unravel.

The dot-com bubble burst and it took AOL Time Warner down with it. From a high of more than \$90 a share, AOL tumbled, and tumbled. Unfortunately, Turner never diversified. His \$10.7 billion AOL Time Warner stake dwindled to \$1.4 billion.

Turner was quoted in Fortune magazine as saying, "No one with substantial wealth should ever concentrate their wealth like that." Disgusted, he finally sold more than half of his remaining stake in AOL Time Warner in May 2003. After earlier stock sales and gifts, Turner's loss amounted to approximately \$8.5 billion.

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Imagine how many of the world's problems could have been solved with that \$8.5 billion.

In early 2000, no one could have imagined that a great company like AOL Time Warner could have declined in value by over 80 percent ...but it did. No company is too big to fall. Look at Enron. Look at Level 3. That's why we feel it is so important to diversify.

I believe strongly in asset allocation and developing well-diversified portfolios. If you have built up substantial wealth through concentrating your assets, then use diversification and asset allocation to help preserve your wealth.

Do not end up like Ted Turner. There are ways to help protect the assets you have worked so hard to generate.

Source: "Fortune Magazine" – May 12, 2003, "Gone with the Wind" by Patricia Sellers

I have a limited supply of the book "The Prudent Investor's Guide to Beating Wall Street at Its Own Game" available. If you want a copy leave your address, phone number and e-mail address. The book is by Daniel C. Goldie and John J. Bowen, Jr.

The Prudent Investor's Guide to Beating Wall Street at Its Own Game shows individual investors how to achieve superior returns through state-of-the-art asset allocation strategies.

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