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The Year Ahead

By Ralph Weil

What is in store for the markets in the next 12 months? This is a question everyone asks at the beginning of each year. Because we invest for the long term, what happens in any year is only a small part of the big picture. Positive, long-term results accrue to investors who own companies that have superior real cash flows generated by sales of products or services.

Our outlook remains upbeat for equity investors. The U.S. economy continues to move ahead led by a strong consumer. We believe this trend will continue because of the good job market and low inflation. When people feel confident they tend to spend more of their income for things beyond the basics. This translates into higher corporate profits and cash flows. In fact, our current forecast for corporate profits is that they will rise about 8% in the year 2000.

Our optimism about corporate profits is one consideration in investment decisions, another is stock val-

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24 Hour Trading?

By Jim Fox

We are seeing a significant increase in trading hours by securities exchanges in an effort to increase trading volume and accommodate the globalization of markets. Linkage of national markets around the world means that soon, trading will almost never end—some exchange will be active in the world almost continuously.

After-hours trading is now also made possible by new computerized order matching systems known as Electronic Communications Networks (ECNs). Computerized orders can be entered from 4:30 p.m. to 7:00 p.m. Eastern Time. ECNs are not yet efficient alternatives to the traditional exchanges due to the restrictions on types of orders, the limited number of issues involved and low volume of trading. However, fear of ECNs becoming competitive is one of the factors driving established exchanges to extend their hours.

Both the NASDAQ and the New York Stock Exchange (NYSE) have

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Reverse Mortgages

By Maye Albanez

Are you house rich and cash poor? Perhaps you are retired, have a modest income and the only asset left in your portfolio is your house. Or perhaps you have a relative or close friend in this situation. A reverse mortgage may be the answer.

A reverse mortgage is a loan which allows a homeowner to convert some of the equity of his home into cash while retaining home ownership. The amount of cash a homeowner can get from a lender depends on the age(s) of the owner(s), the value of the home, and current interest rates. In general, the **most cash** goes to the **oldest borrowers** living in the homes of **greatest value** at a time when interest rates are low. The **least cash** generally goes to the **youngest borrowers** living in the homes of **lowest value** at a time when interest rates are high.

The lender may pay the owner with an immediate cash advance, a credit line account, a monthly cash advance, or a combination of all three. To qualify for a reverse mortgage, the owner must generally be over the age of 62, own his house, and occupy the home as a principal residence. When the last surviving borrower dies, sells the home, or permanently moves away, the reverse mortgage gets paid off. The total amount owed is the sum of all cash advances received, plus all the interest. The borrower can never owe more than the value of the home at the time the loan is repaid. Even if he receives monthly loan advances until age 110, his home declines in value and the total monthly advances become greater than the home's value, he (or his heirs) will never owe more than the value of his home.

Costs of reverse mortgages vary substantially. In addition to regular loan charges like interest, origination fees and closing costs, reverse mortgage costs may include monthly servicing fees,

equity sharing fees, shared appreciation fees, maturity fees, etc. The Federal Truth-in-Lending law requires reverse mortgage lenders to disclose what the single, all-inclusive interest rate would be if the lender could only charge interest and not charge any other fees. This is what is referred to as TALC rate (or Total Annual Loan Cost).

Besides private lenders—which may offer substantially higher lending value limits—the two most common types of reverse mortgages are:

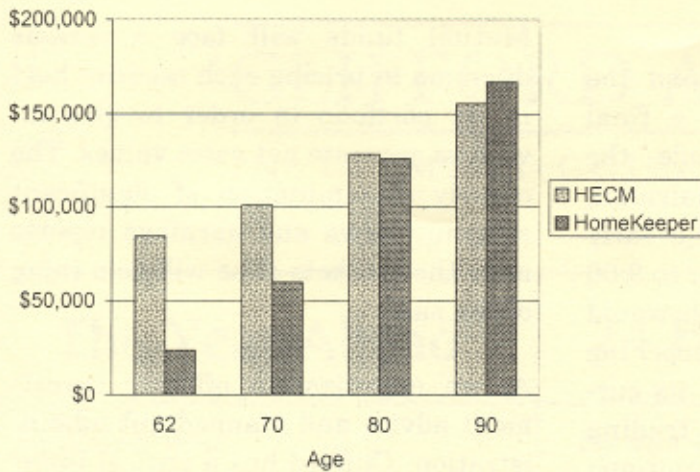
- HECMs: These loans are guaranteed by HUD/FHA and have a maximum lending value of \$208,800.
- Home Keeper: These loans are guaranteed by Fannie Mae and have a maximum lending value of \$252,700.

Reverse mortgages are quite complex. Before you consider one, we suggest you consult with family members, your attorney and your investment counselor. To illustrate how these mortgages work, we have used the example of Mr. and Mrs. Smith. Mr. & Mrs. Smith own a home in Pasadena worth \$500,000 free and clear. The two charts illustrate the expected cash available from their home, in the form of a one-time cash payment (or credit line) and monthly advances throughout their lives at the ages of 62, 70, 80 and 90.

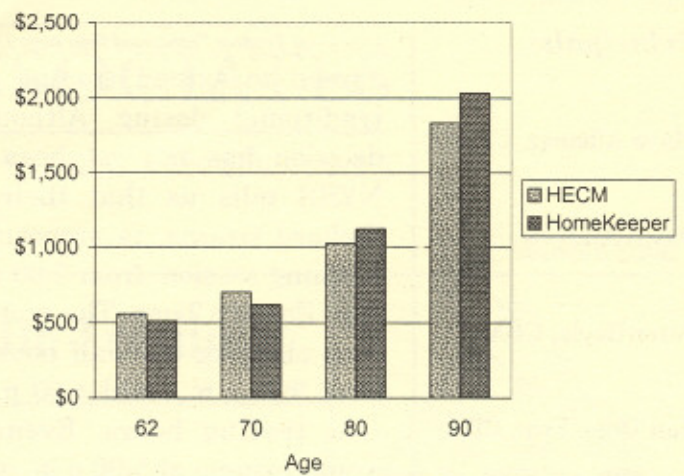
The first chart represents an estimate of the total cash advance and/or credit line limit they might obtain based on the current value of their home, their age and current interest rate conditions. The second chart estimates the total monthly advance they could draw for the rest of their lives using those same assumptions.

What this shows is the large variability of results

Immediate Cash Advance Credit Line Account



Monthly Advance For Life



for different loan programs. In our example, we only changed the ages of our owners. Yet age is only one of the variables. Home values, location, interest rates, mortgage costs, etc. all have an effect on the final outcome. For that reason, it is terribly important to shop around and fully understand the programs different lenders may offer.

Reverse mortgages are not for everyone. If you are interested in keeping your house in the family, you are not a good candidate. On the other hand, for someone who wants to remain in familiar surroundings, or even for caregivers who want to care for their elderly relatives at home, instead of moving the retiree into a nursing home, reverse mortgages may be the answer.

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uations. By traditional measures, the equity market could be considered over-valued. Our view is that many of the traditional measures, such as average Price to Earnings Ratio (P/E) and average Dividend Yield, should be examined in light of today's economy. Because these averages are calculated over a long period of time, anomalies may have undo influence on the figures.

The length of the current economic expansion and its expected remaining life add a positive bias to the current P/E ratio. In periods of low inflation, such as we have today, P/E ratios can and should move higher because they are a discounting mechanism of future earnings and cash flows. An income stream that runs into the future has some value today. In periods of high inflation, these future earnings have less value and therefore cause us to shorten the time horizon over which we are willing to receive our return.

Current Dividend Yield is at a very low level and might give us cause for concern. The difference in today's world is that managements are opting to return cash to the investor by buying back the company's common stock and reinvesting in the business. By shrinking the company's capitalization, the remaining shares get a higher valuation because earnings and cash flows are calculated on a smaller number of outstanding shares.

In the bond market, we believe that today's levels of interest rates offer exceptionally high real rates of return which will not last, and that those real rates will decline to more normal levels later this year. Short-term rates will react to the expected Fed increases, however.

In summary we remain positive on both the equity and fixed income markets and will continue to focus on companies that generate strong positive earnings and cash flows.

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agreed to extend trading beyond the traditional closing. Although a final decision has not yet been made, the NYSE tells us that their chairman, Richard Grassa, is proposing an early morning session, from 5:00 a.m. to 9:00 a.m. Eastern Time. The exchange would then close for one-half hour, reopening from 9:30 a.m. until 4:00 p.m., its current trading hours. Evening trading would resume at 5:00 p.m. and continue until midnight!

The NYSE may take the first steps toward these extended hours as early as July 2000. In a few months—not years—there will not be a traditional closing price used for valuations of charitable gifts, and estate valuations.

Mutual funds will face a serious dilemma in pricing each security held in its portfolio in order to give investors accurate net asset values. The orderly dissemination of significant company news and earnings reports after the markets close will be a thing of the past.

As an organization offering investment advice and planned gift administration, Clifford has a critical interest in encouraging regulators to provide guidance. No one knows how this is going to play out. One thing seems certain, very soon the 4:00 p.m. EST price will no longer be the closing price. We will keep our clients advised of developments in this crucial area.

This 24-hour clock shows that securities may soon be traded on one or more of the world's major exchanges almost around the clock. The market hours are shown for the U. S. Pacific time zone.

