



Overcoming Inertia

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AS A BUSINESS OWNER, IF YOU HAVE A DEFINED BENEFIT PENSION / PROFIT SHARING PLAN, when was the last time you and your management team conducted a thorough review of it, with an eye towards determining whether its goals and objectives are being met? Have mutual funds been your investment vehicle of choice? If so, do the recent scandals in the mutual fund industry make you uncomfortable? What does your broker say? Will he or she provide you with a precise breakdown of what the mutual fund is costing your business, as well as what the brokerage firm is taking?

Have you been sold on the concept of creating and maintaining a mutual fund smorgasbord, e.g.—a large cap growth fund, perhaps some small cap value, a bond fund (of course), as well as a small helping of some East Asian emerging growth (read: China fund, just to add some spice)—with the thought in mind that if one of these *isn't* working, the rest will be (hopefully)? Assuming you're being provided with performance measurement data, is it specifically applicable to your pension plan, or is it a one-size-fits-all, boilerplate recitation of the mutual fund's 1, 3 and 5-year performance record? If you have performance concerns, who can you turn to: the mutual fund manager? ... your broker? In short, what are you getting in return for the money that's being shelled-out to these people?

Is this one of those resistant-to-change issues that, *"so long as I'm not under-funded, we'll muddle along as is"* situations? If so, don't be embarrassed, for defined benefit pension/ profit sharing plans often elicit inertial reactions from business owners. Of course what's really sad is when that longtime, valued employee "old Joe" retires... if you're in a quandary as to where the business is with its overall investment approach, what do you think is going to happen to "old Joe's" nest egg?

Now, ostensibly "switching gears," if confronted with the choice of an off-the-rack suit from some department store, versus a custom-fitted wardrobe made exclusively for you, what would be your choice? As a savvy business person you're probably saying to yourself that you would need to know the cost involved... well, suppose you were told it would in fact cost less? Too good to be true, you say? Well, it's not, at least when

it comes to that defined benefit pension/ profit sharing plan... or "old Joe's" nest egg, as it "rolls out" of your pension plan... or even your personal investments, for that matter.

Founded in 1995, Hardesty Capital Management delivers professional money management services to institutions and individuals possessing \$500,000 and above in investable assets. Our founder, Jim Hardesty, was the Chief Investment Officer of Mercantile Bank's Trust Department for over 15 years. Today, Hardesty Capital has over \$540,000,000 in assets under management and a professional staff combining over 100 years in investment experience. As stated in its mission statement, *Hardesty Capital Management is an investment advisory firm assisting its clientele in the preservation and accumulation of capital through a disciplined, intrinsic value philosophy.*

In practical terms, how do we differ from the typical mutual fund approach? Well, first of all, you may expect a portfolio of individual stocks and bonds specifically designed to meet your particular needs. On average, our clients' equity holdings consist of 35 to 45 stocks. In response to that "mutual fund smorgasbord" cited earlier, study after study has demonstrated that one can achieve adequate diversification with 30 stocks. Further, as for securing an exposure to the overseas markets, 50% of the companies represented on the NYSE have foreign operations—you can pick it up there and have the comfort of knowing that the SEC is exercising its oversight authority. Most importantly, rather than pursuing a "cafeteria approach," you want to select an investment philosophy that you're comfortable with. At Hardesty Capital Management, we make no bones about the fact that we employ a conservative, "blended value" approach, with the goal being to preserve your money and provide a reasonable return over time.

The key to achieving a successful investment result rests on good **communication** and at HCM, you have direct access to the portfolio manager responsible for directing your investments, not some 23 year-old gaining experience on the telephone desk at a huge mutual fund complex. Typically, you may expect semi-annual, face-to-face meetings with your portfolio manager to review your investment performance, not the 1, 3 and 5-year composite results presented by mutual funds, of

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which you comprise an infinitesimal portion. Additionally—though of no consequence when it comes to tax-advantaged money such as a defined benefit plan (or a 401K, for that matter)—it's worth pointing out that our approach enables clients to determine when *they* want to recognize capital gains, rather than being held hostage by the mutual fund's reporting at fiscal year-end.

Finally, remember, **nothing is certain in investing except costs.** At Hardesty Capital Management, we work on a fee basis which is applied to the net asset value of our clients' accounts. *The Wall Street Journal* has suggested that while “few advisers will meet the hurdle,” it is preferable to find a money manager whose fee is below 1%. It should be noted that today's

average equity mutual fund—according to *Kiplinger*—carries a fee (more commonly known in the industry as an expense ratio) of 1.55% x assets. This, too, can increase with an additional 12b-1 fee, etc. Comparatively, HCM's fees start at 0.90% and decline as assets increase. Over time, as the “magic of compounding” is added-in, this differential becomes huge and it falls to your bottom line, not the mutual fund's and/or the broker's.

So, is it time to overcome that inertia? If you would like to learn more, we would welcome your inquiries. In the meantime, please visit us at www.hardestycap.com.



Investment advisory solutions for individuals and institutions

No two individuals or institutions are the same. Hardesty Capital Management prides itself on **responsiveness** and strives to meet your expectations.

The integrity of our operation is built on one very simple premise:

We aren't satisfied until our clients are satisfied.



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