

The Sound Investor Series #35

Who is this Columnist?

By Ed Hynes, CFA

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I've heard some readers wonder who Ed Hynes is, and even one of my sisters wants to know where I get my ideas.

Let me share a little of my background. Wilton is my hometown and I graduated from Wilton High in 1972. I spent a couple of years at St. Michael's College in Vermont before earning a degree in Political Science at The George Washington University in Washington, D.C.

After a short career in market research, I landed a job at Lehman Brothers as an assistant research analyst to a legendary and colorful airline analyst, Bob Joedicke. He agreed to take me under his wing if I worked hard and followed two rules:

1. If I did not understand something, speak up and ask.
2. Never, ever, ask the same question twice!

I survived and always thanked him for making me be a better worker and thinker. After moving to Lehman's trading floor for a few years, I requested a transfer to Tokyo to establish a new team selling U.S. equities to Japanese institutions. That was in 1985, right at the beginning of Japan's "Bubble" economy and I left four years later, coincidentally, just before the bubble burst. During the second half of my stay in Japan, I moved to First Boston where I was responsible for trading U.S. stocks and convertibles during Asian hours.

First Boston moved me to London where I sold U.S. equity derivative products to European institutions. In 1991 I switched to Swiss Bank and a year later I returned to the U.S. to sell Over-the-Counter equity derivatives to U.S. institutions. This was a new business for Swiss Bank and was eventually very successful.

Swiss Bank completed many mergers during the 90s and morphed into UBS. In 1999 at the height of our financial bubble, UBS transferred me to the bubble's center, San Francisco, to run its West Coast sales efforts.

After the bubble burst I looked for new opportunities and the individual investor arena caught my attention. For years I had been learning the trials and tribulations of individual investors by conscientiously reading Jonathan Clements' "Getting Going" column in The Wall Street Journal. His column is excellent and introduced me to many of my current investment beliefs.

His common sense convinced me, and I am sure many others, that individual investors should avoid active investment strategies and stick with passively managed index funds.

He teaches his readers the importance of long-term investing and controlling costs; and to watch out for firms and products that prey on them.

Other dynamics attracted me to this area. On the client side, due to the shift from pension plans to 401(k)s, competent investing is becoming much more important. I strongly believe most individual investors need at least some assistance, but not too much.

I also felt the development of Exchange-Traded Funds (ETFs) and the growth of the internet would change the financial industry. ETFs give individual investors access to a wide range of low-cost, high-quality investment products. The internet allows brokers and investors to cut costs.

I designed Farm Creek Securities from the ground up to serve individual investors who agree that low-cost, passive indexing is the best approach. In particular, the fee structure permits investors to get the help they need without dramatically undermining their performance. Farm Creek is my experiment at building a for-profit business that legitimately serves the needs of individual investors.

For investors who are interested in learning about my investment philosophy, in addition to Mr. Clements' column, I highly recommend a new book by David F. Swensen, "Unconventional Success, A Fundamental Approach to Personal Investment."

Mr. Swensen is Yale University's Chief Investment Officer. He has a great understanding of the investment business and concludes individual investors should avoid active management in favor of low-cost index funds. In the forward, he writes, "The colossal failure of the mutual fund industry carries serious implications for society, particularly regarding retirement security for American workers." Later he concludes, "In the final analysis, almost all mutual funds represent a good idea gone bad."

Although I have great respect for Misters Clements and Swensen, not surprisingly I occasionally disagree with them and take full personal responsibility for all my comments.

In summary, Farm Creek Securities' mission is to enable clients to make smarter investment decisions and improve performance. We assist our clients in making critically important asset allocation decisions, which can be relatively simple and terribly complicated at the same time. We then recommend low-cost, tax efficient investment products (which do not pay us a fee) and help them implement their plan.

To borrow a phrase from Mr. Clements, Farm Creek wants to help investors "Get Going." Rushing ahead is never a good idea; but neither is waiting for "perfect information" before taking any action. Please call us today.

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