



Rocky Mountain Chapter Newsletter

Investment Education Since 1951
www.better-investing.org



Rocky Mountain Chapter

February 2004

Inside this issue:

Details for the 3rd Annual Education Fest inside this issue!

A Message from the President, Carolyn Dickey

Dear NAIC Members,

It is with great pleasure and pride that I have accepted the position of President of the Rocky Mountain Chapter. My goal as President is to continue in the footsteps of Gary Higbee, John Frank, Russ Brown, Lou Methner, and all of the Directors of the Rocky Mountain Chapter to bring the highest quality investment education opportunities to you, our members.



As we look forward to the new year, I am feeling an optimism regarding the stock market and our economy in general. The last three years have been difficult for all of us and now we need to move forward and work toward growing and managing our portfolios effectively. The Rocky Mountain Chapter Educational Program is the place to help you learn how to make the best decisions using the NAIC fundamental methods. Educational Vice President John Rogers now has the Spring Class Schedule in place, which is included on page 6 and 7 of this newsletter. You can also find the schedule and keep up with changes and news on our website: www.rmchapter.org

On March 20, 2004, the Rocky Mountain Chapter will present the 3rd Annual Education Fest at Auraria Campus. This event will include fifteen investment education classes ranging from beginning to advanced. You will find the registration form and schedule on the next page. We respectfully request that you register in a timely manner so that we can continue our planning process accordingly.

The Rocky Mountain Chapter is always looking for volunteers. Currently we have 23 Directors. Volunteering does take some time, but the more people we have, the easier it is on everyone. Significant benefits include, reimbursement for

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Rocky Mountain Chapter Contact Methods

Get information about classes, special events or general questions by calling our hotline at **303-382-6927**.

Leave a message and we'll get back to you quickly.

Or

Visit our website at:

www.rmchapter.org

to view up to date class schedules, descriptions of classes, to sign up to receive notices via email, or to send emails to any chapter director.

For class registration, questions, or to withdraw from a class, you can e-mail:

Denver-registrar@better-investing.org

President's letter continued from page 1

most of the cost of attending one of the national events, such as Compufest or the BI Convention. These national events help our Directors further their investing education, so they can come back and share some great ideas with the members of the Rocky Mountain Chapter. All classes presented by the Rocky Mountain Chapter can be attended by the Directors for free. If you teach or assist with classes, you benefit by repeating the materials – which really solidifies your knowledge. The Rocky Mountain Chapter has a mentoring process, which will help you become comfortable in the area of your interest, whether it be teaching, speaking to a group, develop training materials, managing projects, marketing and other skills. Best of all is the satisfaction of watching people learn and making a difference in their lives. If you are interested in becoming a volunteer, you must attend three Board meetings and fill out an application. We meet monthly on the 4th Monday of each month (except June, July, and December) at 6:00 p.m. at the Schlessman Family Branch Library located at 1st Avenue and Quebec Street. The Board meetings are open to the public and you are welcome to attend.

The Rocky Mountain Chapter has been very successful and we can attribute that to the outstanding Board of Directors. I would like recognize some of those people, who have given so much time and effort making our Chapter a success. Pat Wood, who just resigned her position with the NIA Board and Ken Wood, who have both given over ten years of time and knowledge to NAIC. Don Van Wyke, Sharon Mahler, Gary Higbee, Patty Drever, Emily Holiday and Judi Fisher, all who have given five years or more and are ready to volunteer at the drop of a hat for whatever needs done!! Bonnie Biafore, who is the author of the new “NAIC Stock Selection Handbook”, published by Better Investing. Bonnie has developed class training materials along with teaching classes. Saul Seinberg, who is on the NAIC Computer Board and is one of the most outstanding teachers we have, both here in the Rocky Mountain Chapter and at the national level. All of our Directors deserve a hand for their dedication to the Rocky Mountain Chapter.

Thank you to all the Rocky Mountain Chapter members for your support. If you would like to contact me, my email is dcarolyn@4dv.net.

Carolyn Dickey, President

**Spring 2004 Education Fest
Registration Form**

**March 20, 2004 - Auraria Campus, Denver, CO.
Make checks payable to NAIC Rocky Mountain Chapter.**

Early Registration cut-off date:

March 6th: \$50.00

After March 6th Postmark: \$60.00

Mail to: NAIC Registrar P.O. Box 370983 Denver, CO 80237

Name: _____ Phone: _____

Address:

Street: _____

City: _____ State: _____ Zip: _____

Email address (Please print clearly):

Can we use this email to send notices of future NAIC events? Yes ___ No ___

Education Fest 2004: Stop, Drop, and Invest for 2004

MARCH 20, 2004 AT THE AURARIA CAMPUS FROM 9:00AM TO 5:00PM

Stop, drop, and put out the investing fires of the past few years. 2004 is a brand new year and the NAIC has a brand new Education Fest created to propel your investing knowledge into the future and teach you how to buy, sell, and manage a growing portfolio of stocks and mutual funds the NAIC way.

Education Fest 2004 will have key speakers on popular and current investing issues faced by NAIC investors. There will be special presentations by publicly traded companies, such as *Aflac, Inc and GE*. In addition, there will be a *fantastic array* of classes for every level of investor. The Education Fest is not to be missed. This is a great opportunity to learn a broad spectrum of NAIC techniques in one day.

Sign up before March 6th and pay only \$50. After a March 6th postmark, pay \$60. Cost includes lunch, afternoon snack, and handout binder.

For the latest information on registering for Education Fest, prices, class schedules, speakers, and other general information please visit www.rmchapter.org or call (303) 382-6927.

TIME	ACTIVITIES		
7:45AM - 8:25AM	Registration		
9:00AM - 9:30AM	General Session- Special Guest Speaker		
	BEGINNER	INTERMEDIATE	ADVANCED
9:40AM - 10:30AM	Investing Basics - Julie DeTemple	Hacking Excel for Better Investing - Bonnie Biafore	Stock Screening - Gary Higbee
10:40AM - 11:30AM	Getting Kids Involved - Pat Wood	Judgment: Disciplined Investing - Axel Sjogren	How to Prepare a SSG for a Bank - Saul Seinberg
11:40AM - 12:30PM	Mutual Fund-amentals - Julie DeTemple	Intermediate Portfolio Mgt. - Bonnie Biafore	Diversifying the REIT Way - John Rogers
12:30PM - 1:45PM	LUNCH		
1:50PM - 2:20PM	Special Presentation		
	BEGINNER	INTERMEDIATE	ADVANCED
2:30PM - 3:20PM	Investing for Women - Carolyn Dickey	New NAIC Software Suite - Ken Wood	Portfolio Maintenance and Mgt. - Bonnie Biafore
3:30PM - 4:20PM	Ten Ways to Enthusiasm - Emily Holiday	Spyders, HOLDRS, & Vipers, Oh My! - John Rogers	When to Sell - Saul Seinberg
4:30PM - 5:00PM	CLOSING AND DRAWING		

The New Model Club Workshop

By John Rogers

The 309 class is revamped this year with a new name and format to better address the needs of our membership. "Special Topics and Stock Studies" name is replaced with "Model Club Workshop". This is in response to your suggestions at our "Presidents' Breakfast Symposiums" and the "2003 Education Fest" on how the chapter can better serve the NAIC community. You asked for more "how to do it" classes and more actual, real world practice applying judgment to the SSG. The new "Model Club Workshop" is the first step towards modifying our educational program to better address these needs. The key to becoming a successful investor is education and experience and this workshop will help in both areas.

Q: What are the goals of the workshop?

A: The workshop's goals are to

- build and maintain a Model Portfolio using the NAIC methods and tools
- help workshop participants learn new skills and gain invaluable experience.

We learn and gain experience in how to

- manage a portfolio using PERT,
- apply judgment to the SSG and hone those skills further by applying them to real stocks to determine a buy/hold/sell decision,
- evaluate a stock relative to its competition and others in its industry,
- present a stock to a club, and
- screen for stocks to find prime candidates for study that also diversify the Model Portfolio

You asked for more "how to do it" classes and more actual, real world practice applying judgment to the SSG. The new "Model Club Workshop" is the first step towards modifying our educational program to better address these needs.

Q: Who is the target audience of this new workshop?

A: First of all, this is not a class like those taught by the chapter in our regular schedule. There is no extensive lecturing. Rather, it is a workshop where attendees actually participate in expanding their ability to invest the NAIC way. It is targeted to all NAIC members, but particularly those of you who might be considered intermediate to advanced. The workshop is hosted by knowledgeable chapter directors, but the workshop participants actively participate in learning and helping others to learn.

Q: What are the pre-requisites for the workshop?

A: To get the most out of this workshop, you should have attended the chapter's core classes or have equivalent experience or training obtained elsewhere:

- 102: Introduction to Investment Basics
- 201: 10 Hour Stock Selection Guide
- 202: How to Exercise Judgment on the SSG
- 203: How to Manage a Portfolio
- 301/302: How to Use ToolKit, OR 303/304: How to Use Stock Analyst Plus

Q: What is the format for the workshop?

A: The workshop meets the second Thursday of each month at a location announced on the chapter's website. The workshop agenda includes four activities:

1. Review the Model Portfolio using PERT to see if it can be improved and assure it is properly and sufficiently diversified.

2. Present and analyze stocks selected for study the previous month.
3. Select stocks to add to the Model Portfolio
4. Find new stocks to study next month using a stock screener such as Prospector.

Q: Who leads the workshop?

A: The workshop is organized and led by experienced, knowledgeable chapter directors. Our chapter President, Carolyn Dickey, will provide primary leadership. Directors John Rogers and Jim Wilson will provide assistance and support. Other chapter directors may participate on occasion.

Q: Is the Model Club Workshop an actual partnership with dues, etc.?

A: No, the workshop is not an actual functioning investment club. The purpose of the workshop is to strengthen investor skills and help you help your club to increased investment success.

Q: Finally, what do I get for my class fee?

A: In addition to all the great things you learn in the workshop and all the great practice you get selecting, evaluating, and presenting stocks under the tutelage of knowledgeable directors and fellow students, each month we will furnish to all pre-registered attendees, via e-mail, the Value Line Reports and S&P Data Sheets for each stock to be studied.

Q: Is the workshop more than just a class I attend once?

A: Yes. The workshop sessions are linked together as we build the Model Portfolio. One session leads into the next. For example, we may choose stocks to study in our November workshop for presentation and analysis in our December workshop. While everyone is urged to attend as regularly as possible, we know it probably won't be possible to attend every session. We all have additional obligations and scheduling can be tough. But you should definitely plan ahead to attend as many workshops sessions as you can. The more you attend, the more you will benefit.

Q: How important is it that I pre-register for the workshops?

A: It is especially important to pre-register at least three days before the workshop date so we can e-mail the material to you. With proper preparation, you will get much more from the workshop.

Q: How do I pre-register?

A: You pre-register for the workshop just as you do for a regular class. You may attend without pre-registering by coming to the workshop and paying at the door, but you won't have the e-mailed material so you may not get as much from the workshop as you would if you'd pre-registered.

Board of Directors

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NAIC Rocky Mountain Chapter Class Schedule Winter/Spring 2004

Sorted by Date

#	Class & Section	Place	Cost	Time
102	<u>Introduction to Investment Basics</u> Section 1 - 1/17/04	Auraria	\$20 preregistered \$25 walk-in	8:00 am- 12:30 pm
305	<u><i>NEW</i>: Online Research and Investing</u> <i>Special presentation by Bonnie Biafore</i> Section 2 - 2/7/04	Red Rocks CC	\$35 preregistered \$45 walk-in	8:30 am- 11:30 am
201	<u>10-Hour Beginning SSG (in two parts)</u> Section 2 - 2/21 & 2/28/04	Auraria, KC 205	\$35 preregistered \$45 walk-in	9:00 am- 3:00 pm
<u>403</u>	<u>Close Out of Books</u> Section 2 - 2/28/04	Auraria, KC 205	\$35 preregistered \$45 walk-in	8:00 am - NOON
<u>404</u>	<u>Auditing Club Financials</u> Section 2 - 2/28/04	Auraria, KC 205	\$35 preregistered \$45 walk-in	1:00 pm- 4:00 pm
204	<u><i>NEW</i>: Adv. Judgment: When to Sell + Intro to OPS</u> <i>Special presentation by Saul Seinberg and sponsored by the WOFI Club (Pre-requisite: 201)</i>	Community Room Farr Library, Greeley	\$5 WOFIC members \$15 preregistered \$20 walk-in	9:00 am- 12:30 pm
301	<u>Beginning Toolkit</u> Section 4 - 4/3/04	Red Rocks CC	\$35 preregistered \$45 walk-in	8:30 am - 11:30 am
302	<u>Advanced Toolkit</u> Section 4 - 4/3/04	Red Rocks CC	\$35 preregistered \$45 walk-in	NOON- 3:00 pm
<u>120</u>	<u><i>NEW</i>: Mutual Funds Analysis (now includ- ing bond funds)</u> Section 4 - 4/17/04	Auraria, KC 205	\$20 preregistered \$25 walk-in	9:00 am- 3:00 pm
202	<u>How to Apply Judgment to the SSG</u> <i>(Pre-requisite: 201)</i> Section 5 - 5/1/04	Auraria	\$20 preregistered \$25 walk-in	8:30 am- NOON
203	<u>How to Manage Your Portfolio</u> <i>(Pre-requisite: 201)</i> Section 5 - 5/1/04	Auraria	\$20 preregistered \$25 walk-in	1:00 pm- 4:30 pm

#	Class & Section	Place	Cost	Time
307	<u>NAIC Take Stock</u> Date - TBD	Red Rocks CC	\$35 preregistered	8:30 am -11:30 am
309	<u>NEW:</u> Model Club Workshop Second Thursday of the Month	Auraria, KC 106	\$10 preregistered \$15 walk-in	6:30 pm -8:30 pm
303	<u>NEW:</u> <u>Beginning Stock Analyst</u> Date - TBD	Red Rocks CC	\$35 preregistered \$45 walk-in	8:30 am - 11:30 am
304	<u>NEW:</u> <u>Advanced Stock Analyst</u> Date - TBD	Red Rocks CC	\$35 preregistered \$45 walk-in	1:00 pm- 3:00 pm
402	<u>Club Accounting using "Club Accounting for Windows"</u> Date - TBD on demand	Red Rocks CC	\$35 preregistered \$45 walk-in	8 am -NOON

**ROCKY MOUNTAIN NAIC Chapter
Class Registration Form**

Mail this registration form to:

NAIC Class Registrar PO Box 370983 Denver, CO80237

Make check payable to: NAIC Rocky Mountain Chapter

**** Please Print ****

Name _____

Home Phone _____ Work Phone _____

Address _____

City, State, Zip _____

E-mail: _____

Can we use this email address to send notices of future NAIC events? Yes ___ No ___

Name of Class _____

Date _____ Class Number _____ Section _____

Fee _____ Instructor _____

Please use a separate registration form for each person you are registering.

Cancellation Policy:

Please pre-register whenever possible. Classes with fewer than 10 pre-registrations one week before the date of the class are subject to cancellation. You may request a refund for a canceled class, or apply your tuition to another class.

The Rocky Mountain Chapter registrar sends notification of classroom changes, time changes, and cancellations, by email no later than two days before the scheduled class date. You also can check the Rocky Mountain



Who Is Your Club Contact?

By Jo Lynne Whiting

Do you know the name of the person in your investment club who is your Club Contact with NAIC?

This is an important person to get to know because they can keep you up-to-date with what is going on at NAIC at both the Chapter and National level.

NAIC is made up of members and volunteers who share a passion to learn to invest wisely. The better the two-way communication is between all parts of NAIC the more effective we will be.

Who should be your Club Contact?

When your club first joins NAIC, the person who submits the membership form is asked to designate the club contact for your investment club. The club contact can be verified or changed each year when club membership is renewed.

Any member of your club can be the club contact. Some clubs designate the Treasurer because the Treasurer often submits the membership form. Many clubs find it works best to designate the President. The President plans the agendas for club meetings and can be sure that time is built in for announcements of upcoming events. They also can draw upon the NAIC Chapter and National resources to plan productive meetings with ongoing education topics.

What are the responsibilities of the Club Contact?

- Minimum requirement: pass on info received from post card mailings to other club members at the next investment club meeting
- Extra credit: go to NAIC Rocky Mountain Chapter Website at www.rmchapter.org at least twice a year to print the Fall and Spring class schedule and distribute it at club meetings with information regarding how to register for the classes
- Above and beyond the call of duty: be the conduit between the investment club and the NAIC Rocky Mountain Chapter Board
 - Let a Chapter Board member know what support your local club most needs to be successful
 - Invite a Chapter Board member to visit your club to establish personal, two-way communication

What if you are an individual member and do not have a Club Contact?

You can take the initiative to be up-to-date with NAIC resources.

- Check the Regional Notices in Better Investing magazine to find out about upcoming events
- Sign up for the email notification list so that you will be informed of important upcoming chapter events
- Periodically visit the NAIC Rocky Mountain Chapter Website at www.rmchapter.org to check out the class schedule and other important announcements. You can also visit the National NAIC Website at www.better-investing.org to take advantage of I-Club List and many other educational topics.

Next Steps

- At your next investment club meeting, take a few minutes to introduce your Club Contact.
- Discuss as a club how closely your local club is linked to the NAIC Chapter and National resources. Are there any changes that you would like to make?
- Thank your Club Contact for the important role they play.

Mining for Data with EdgarScan

By Bonnie Biafore

Calculating financial ratios, such as the current ratio, interest coverage, or inventory turnover, isn't hard. The tedium is collecting the numbers you need and loading them into a spreadsheet. However, Price Waterhouse Coopers has a nifty tool to simplify your data collection—EdgarScan (<http://edgarscan.pwcglobal.com>).

EdgarScan is a program that interfaces to the Security and Exchange Commission's EDGAR Filings online, sifts through them automatically to find key financial tables, and creates Excel spreadsheets containing the data. In addition, the financial field labels are standardized so its easy to find the numbers you need for any company. Depending on the speed of your connection, you can view tables that include hyperlinks to the SEC filings or to specific sections of each filing, including financial statements, footnotes, and extracted financial data. A Java applet called the Benchmarking Assistant creates bar graphs of different financial measures for up to 13 years. It's simply fabulous for visually spotting positive or negative trends, as you can see in the figure below. You can download these graphs as Excel charts.

You can also download a spreadsheet of company data into Microsoft Excel on your computer, so you can crunch ratios to your heart's content. To download a spreadsheet, choose whether you want to enter the company name or the ticker symbol and then type the name or symbol in the box, and click Search. On the page for the company, under Extracted Financial Data, click the Excel Spreadsheet link, and download the file. (If you use Internet Explorer, click Save in the File Download dialog box.)

When you download an EdgarScan Excel spreadsheet for a company, you get 13 years worth of 10-K data along with the quarterly data from all the 10-Q repots for those years. EdgarScan collects the numerous and often creatively named measures into several fields for each financial statement. Assets, liabilities, the Income Statement, and the Cash Flow statement each have 7 to 10 fields.

Because the fields are named the same for every company, it's easy to set up Excel functions to automate grabbing the data you want. The VLOOKUP function looks up a value in the leftmost column of a table and returns a value in that row but from a column you specify. For example, you can search the column with EdgarScan labels for "Inventory" and return the value from column B, which is the oldest 10-K data.

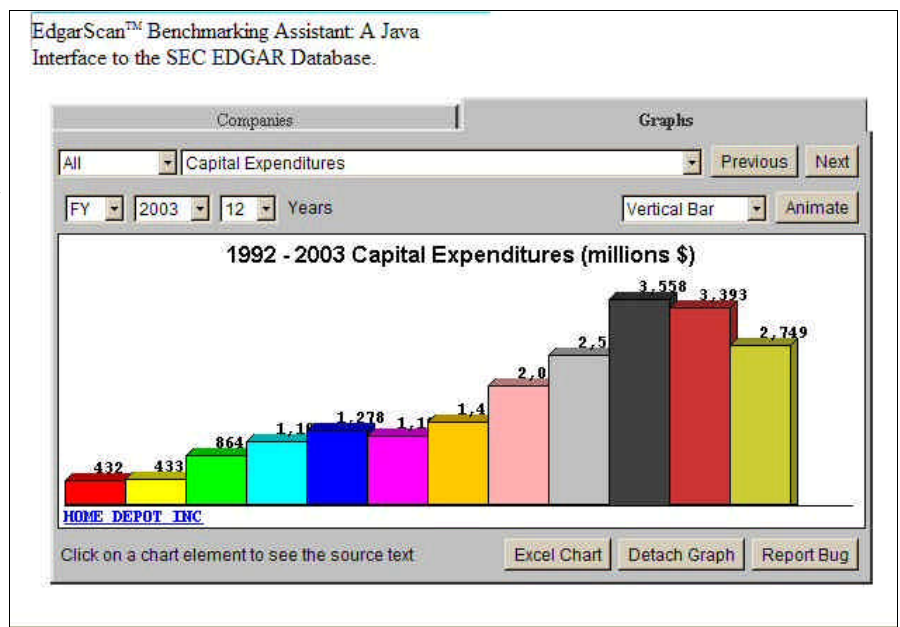
The formula looks like this: `=VLOOKUP("Inventory",A3:AT45,2,FALSE)`

Let's break down the VLOOKUP function to see what it is doing:

- "Inventory" is the value Excel searches for in the left-most column of the table.
- A3:AT45 is the range of cells in the table.
- 2 specifies the column in the range to use for the return value.
- FALSE tells VLOOKUP to look for an exact match for "Inventory".

Note: The column parameter specifies the position of the columns within cell range. In this example column A of the worksheet is the first column in the cell range, so 2 specifies column B. If the cell range was K10:N18 the column K of the worksheet is the first column, so 2 specifies column L.

Go to the EdgarScan website and try it out.



REITS Can Be Investment Treats! – Part 1

By Saul Seinberg



Introduction:

Some NAIC investors don't like to do SSGs on banks because their SSGs take some unique steps and data to complete. However, banks are familiar to us as entities we see and deal with every day. So, given that degree of familiarity, we're not too reluctant to plow ahead, seek out that special bank data and polish off another bank SSG in just a few minutes more than it took to complete an SSG, let's say on Wal-Mart.

REITS, Real Estate Investment Trusts, however, are a breed apart because they are not as common or visible as other forms of business organizations (corporations, limited liability companies and partnerships) so we tend to shy away even more from trying to complete SSGs on REITS. Further, this type of business entity also has some unusual characteristics of its own that make its SSG a little different to tackle.

To help you get a handle on investigating REITs for investment purposes, let's first discuss what they are, how U.S. tax law now makes them more suitable as investments in taxable accounts and how to complete an SSG on a REIT.

What Is A REIT?

A REIT or Real Estate Investment Trust is different than the companies we usually do SSGs on, particularly with respect to the way it operates and its federal tax treatment. But, the differences, as we'll find out, are not as significant as you might initially believe and they should not keep you from checking out or using REITs as an investment vehicle.

REITs are companies that own, operate, manage or invest in commercial real estate of all kinds. Typical real investment property types owned and/or managed by equity REITs are apartment complexes, shopping centers, office buildings, business parks, self-storage units and warehouses. Mortgage REITs invest in or finance by lending money to their owners and don't necessarily manage such real estate properties. In addition to management fees and rents, a REIT can also capture capital gains by selling its properties.

In order to qualify as a REIT for federal tax purposes, among other requirements, a REIT must distribute at least 90% of its taxable income each year to its shareholders. That makes a well run REIT a terrific income producing vehicle for investors seeking that type of situation. However, as we're aware, dividends were taxable at ordinary income rates, so many REIT investors previously participated in REITs only in their sheltered, non-taxable (IRAs, 410Ks, etc.) accounts.

Now under the new tax code changes, dividends are not supposed to be taxed twice and so their treatment is now much improved for Joe Taxpayer. Unfortunately, except in rare instances, REIT dividends by their nature aren't taxed twice, so they don't qualify for the reduced dividend tax. However, any capital gains distributions or return of capital made by the REIT will qualify for the lower capital gains rate available under the recently passed tax provisions. So, there's a little improvement for us ordinary folks when it comes to tax treatment of REITs, but not enough to make a significant difference. If you liked REITs before, you should still like them. If you didn't know about REITs before, educate yourself some more. In either case, don't forget that REITs still pay close to a 7% dividend yield on average, which is better than your bank treats you, even after taxes.

Congress originally created REITs under enabling legislation in 1960. The laws were designed to facilitate participation for individual investors in large scale real estate properties. Eventually, this legislation was changed to further permit REITs to manage the properties they invested in and the current form of REIT, as we know them today, was born.

REIT Investing Considerations:

REITs represent an asset class, real estate, which most investors are not involved with except possibly with respect to home ownership. Buying shares in a well run REIT, however, permits us to directly participate in real estate investments as individuals and investment club members and obtain diversification without the usual real estate concerns of high purchasing and selling expenses as well as low liquidity. We can also invest in mutual funds that exclusively hold REITs in their portfolio.

For NAIC practitioners, investing in a REIT is no different than investing in any other type of publicly traded company. While the income stream that REITs provide is attractive indeed, our basic quality and growth concerns must be answered in the affirmative.

We need to be satisfied that share price is likely to grow, an event we want to enjoy along with that lovely stream of dividend income.

From a management standpoint, recall that a REIT pays out at least 90% of its taxable income each year. This means that a typical REIT will have to borrow money for its day-to-day operations, usually more than the average non-REIT company. It also means higher than usual debt-to-capitalization ratios, but that's a characteristic of REITs that shouldn't be feared in a well run REIT. However, this places a great deal of importance on REIT management skills and experience since the companies they manage will be retaining only 10% or less of its income stream for use in managing and growing their companies and paying higher interest expense than most other types of companies.

Because the REITs we're interested in as NAIC investors are publicly traded, they are governed by SEC mandated reporting requirements. Gone are the go-go days of tax sheltered, highly leveraged and aggressive depreciation schedules that earned REITs a dubious reputation in the past. REITs are now scrutinized and audited by the SEC and the financial media, just like traditional companies we invest in.

In addition to the more highly publicized income stream they provide, REIT share prices have given investors meaningful improvements in share prices. About 30% of total return from REITs is the result of long term growth in share prices. So, as investors, we should expect and investigate REIT performance results to insure that we have a good opportunity to capture and benefit from upward share price movement as well as the expected income stream so that our investment criteria and total return matches NAIC expectation levels.

What are the important downside risks with respect to REITs you ask? Well, REITs, like the overwhelming majority of companies we investigate and invest in, are subject to economic downturns. REITs are not immune to a poor economy since that leads to empty apartments, offices and stores and reduces utilization of parking garages, warehouses and like facilities. These increased vacancy rates lead to lower profits for REITs. In addition, since REITs throw off revenue streams like bonds and other debt instruments, they are also, like bonds, subject to interest rate fluctuations. That means when interest rates go down, REIT share prices will be more sensitive to and experience downward share price pressure.

Measuring REIT Performance:

When you think about doing an SSG on a company, data may be an issue. It is for a study of a bank where revenue takes on a different meaning than they have with respect to non-REIT conventional companies, for example, like IBM, Wal-Mart or Home Depot. As with a bank, appropriate metrics and related data for a REIT may be a bit less straightforward to determine, but they are not too difficult to come up with and apply, as we shall see.

Some data sources, like S&P in the OPS data files, combine the several types of income a REIT gets, such as rents, fees, sales, etc., into one figure while other data sources, such as Value Line, specify revenue separately for each main type of revenue source. REITs, like other public companies, report EPS on the basis of GAAP net income. However, rather than use revenue or sales as an EPS companion metric, the typical case for an SSG, the prevailing view with respect to REITs uses Funds From Operations or FFO as a substitute or alternative for revenue. As a result, FFO has become a conventional approach to compare REIT performance and FFO and FFO growth are regarded as REIT specific items to use in measuring REIT performance, on an individual or a comparative basis.

However, FFO is not a conventional accounting item or an official number required by GAAP (Generally Accepted Accounting Procedures). Rather, FFO is calculated and made available by REITs themselves and its use has historically been promoted by REITs and their trade association. To derive FFO, a REIT will usually start with GAAP net income, adjust for gains and losses on the sale of properties and then add depreciation back in. As such, FFO tells us how much cash is really available for dividend payment and the more cash left over and retained by a REIT for operational purposes, the less costly (reduced borrowings) it is to operate that REIT.

FFO can be obtained from a company's web site or found in company financial statements. Alternatively, a substitute for FFO can be used.

For more on REITs and the use of FFO, Net Income and other REIT metrics, and for a look at a completed SSG for a well thought of REIT, see Part 2 of this article in the next issue of the Rocky Mountain Chapter Newsletter.

Rocky Mountain Chapter



National Association of
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Southeastern Wyoming*



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Have You Hugged Your Treasurer Today?

*Article by Larry Reno
Condensed by Pat Wood*

Probably one of the most under appreciated positions in an investment club is that of the Treasurer. Next time you have an election of Officers in your club see how many volunteer for that position.

Now that we will soon have our club taxes behind us, the Treasurer can look forward to our "monthly chores". I hope that your club has done the right thing for your Treasurer and purchased "Club Accounting" software.

Club Tax Reporting is the responsibility of all members.