

**ASSET VALUATIONS ARE REQUIRED
FOR
PROPER BALANCING
FOR
OPTIMAL PORTFOLIO PERFORMANCE**

I am surprised? It appears that financial planners, financial managers, trustees, estate managers and CPAs have not been doing their jobs nor exercising their fiduciary responsibilities to the extent required by their profession. I have been doing personal research on Financial Planning and Management. My research included a reading of the "Uniform Prudent Investors Act", the Estate Planners Kit by Jack Arthur Kirby, the Estate Planning Desk Book by William H. Behrenfield, and an interesting website called "Strategies & Tactics: Sun Tzu & The Art of War Applied To Portfolio & Rick Management " by Jim Hight at <http://www.strategies-tactics.com> and other Internet resources.

There was no discussion of real property and intangible asset values in portfolio management! Yet, real property and intangible assets (un-traded stocks and personal investments) are often a significant part of an individual or trust portfolio.

I was prompted to enter this process of research because of a recent court case for which I was the appraiser involving 7 identifiable properties for a 1978 founded business worth \$800,000 for intangible assets in 1990 with an additional \$1.4 million in real property assets. Stock transfers took place in the mid-nineties from surviving mother to daughter and from daughter, 50% of her share, to son-in-law, daughter's husband. Financial Planners, Attorneys and CPAs were involved with this "family estate" all along the way. None, not even the hired party to do the 1995 business valuation understood intangible asset valuations. The result was, what appeared to be a stripping of cash and assets from the company under the leadership of the son-in-law prior to a divorce from the family daughter resulting in an estate going into bankruptcy in 2001 and the loss of all the family assets involved in the venture. To see such waste and incompetence on the part of so-called knowledgeable and professional advisors to the detriment of the family was beyond my comprehension. To see clear patterns of cash management deficiencies and warnings from the CPA that were ignored surprised me. To see a family corporation and married parties without a stock redemption agreement was beyond my comprehension, even more so that, apparently, no one suggested such an insurance instrument to protect assets from the vagaries of human nature, people and the unknown of the future.

I write this in the hope that those entrusted with the assets of others will diligently, even to their client's chagrin, do what is right, what is professional, what is prudent and what is competent for the assets and the clients benefit. I write this in the hope that those entrusted with the assets of others will recognize the need for supportable valuations of each tier of the asset portfolio. I write this because to not do right is no prudent and violates the law, morals and ethics of a professional financial planner, CPA or attorney. The head-in-the-sand approach many use when dealing with commercial real property or intangible assets is unacceptable and unprofessional. I do not think those in a position of trust are intentionally not performing their duties properly. I think that so few

know the technicalities and risks of commercial real property and intangible assets in their portfolios that they ignore the reality of what they need to do for their client. I would pose that if any portfolio is more than 10% commercial real property and or tangible assets the scale is awry as to balance for insurance, asset protection and asset growth unless values and risks have been assessed by a competent professional.

We all know, based on risk and client needs matched to a market of varying degrees of volatility and risk for cash (arbitrage), bonds and secure paper, stocks, mutual funds, real property, privately held businesses income sources and independent risk ventures the foundation for portfolio management for balancing between the market and the client needs are supportable values for each asset and that all assets must be included in the portfolio. The above, money markets/cash through mutual funds are easily quantifiable through markets and traded transactions. A “most probable estimate of market price...” for real property through an expensive appraisal may update the value of a property every 3-5 years, depending on market conditions. The values for intangible assets like income from business are important for estate, insurance and portfolio balancing planning. They too require an expensive “estimate of most probable market price...” as determined from an expensive appraisal and are therefore seldom done. Finally, intangible risk assets may pose the greatest threat to the portfolio (requiring higher insurance measures) and need to be critically valued if the portfolio is to have a proper foundation for portfolio balancing with the client needs, risk and the market. A portfolio without an assessment of value for those portfolios with commercial real property and intangible income producing assets is lacking in the critical prudent management necessary and required of a professional. Time and again portfolio managers move forward with an old value or no value except the assessed value or purchase price for real property assets and no value for intangible assets whether they be client small corporation business income for stock ownership not traded on the market, client stock in other companies or client loans to relatives or others. There are alternatives in the market for low cost valuations that will satisfy most, satisfy the IRS. There is no excuse for not having external, supported valuations. There is no excuse for being less than prudent, less than professional and to increase you or your firm’s risk.

I think the reason planners do not know these values is because they are expensive to obtain from appraisers qualified and experienced enough to perform such services, for which there are few except real property appraisers. Basically, the client will balk at the cost> The financial planners’ or managers’ fees are not large enough to add such items to the expense category for account management. An exception to real estate values of course is residential real estate for which drive-by appraisals are relatively inexpensive and usually, due to improvements in assessment office capability, the tax assessment is a pretty good value number in most cases. But, in the case of commercial real property (office, warehouse, retail, multi-family and mixed use) an estimate of value is needed every 3-years in most markets, 5-years in fewer transaction, hinterland or rural markets to have a prudent value for portfolio balancing with client needs and market conditions.

I would pose to the reader that failure to address a supportable value for real property and intangible assets puts the client at risk, may preclude proper balancing of the portfolio with the market and the client needs, I think this leaves the planner open to liability for the lack of prudent management. I think it leaves the planner or portfolio manager open to liability for lack of prudent management unless the client signs off on a disclosure and instruction releasing the planner or manager from liability.

Jim Hight in his "Strategies & Tactics" Summary reflects guidelines for ethical, prudent client and asset care while growing assets and professionally meeting the market as follows:

SUMMARY OF THE ART OF WAR

In summary, there are several important themes developed by Sun Tzu as they can be applied to portfolio management and risk management challenges.

Strategic Planning And Rational Analysis: Planning based on rational analysis of the best quality information available.

Importance of Information and Related Processing Capability: Secure the best information available. Protect the sources and processing capabilities from compromise.

Importance Of Knowledge, Wisdom, And Understanding: A theme that is imbedded in virtually every other theme, especially in regard to knowing self and opposition.

Study The Past, Market Analysis, Develop and Maintain an "Edge": Leads to knowledge, which, if properly focused, can lead to success.

Strive to become the superior force in more than mere numbers: This is achieved through focused knowledge and experience, which, in turn, is gained by studying and observing situations, conditions, people, and events; remembering what was observed; comparing the observations to one another as well as to contemporary circumstances; and by disciplined application of the results of the observations in the pursuit of strategic objectives.

Know yourself, your opposition, and the environment within which interaction will occur.

Staying Focused On Strategic Objectives: Keep attention of all resources and related action focused on achieving strategic objectives as promptly as possible. Avoid becoming distracted by the nuances and intricacies of implementing complex strategies and tactics.

Suitability of Strategies and Tactics to Situation: Match the suitability of strategies and tactics to the market's phase, section, pattern, and volatility.

Inherent Advantages and Disadvantages: Understand, and guard against, the inherent disadvantage in every advantageous situation. Likewise, be alert to capitalizing on advantages that occur in distressed situations.

Opportunistic Flexibility in Adapting Strategies and Tactics to Situation: The way to capitalize on the endless opportunities created by ever-changing market conditions is to become engaged as a part of a well thought out trading plan and be flexible in adapting tactics to those ever-changing market conditions within the context of each pre-determined strategy.

Ethical Conduct: Be moral and ethical in all things.

Rely On Your Own Preparation: Rely on your own preparations. Do not hope for success based on the opposition not preparing.

Competent Management: Develop a balanced management skill set to enable prudent resource utilization.

Disciplined Emotions: Minimize emotional influences (hope, fear, greed).

Disciplined Organization And Financial Management: Discipline, efficient, and effective organization, and utilization of all resources (people, plans, tools, capital), in the capacity to which they are best suited, in all situations, is critical to success.

Ensure appropriate financing and provisioning of all activities (prior to and during).

Clear Communication: Ensure clear communication in all aspects of the development, testing, and implementation of strategies and tactics.

Deception and "Shaping": Practice deception in plans, strategy, and tactics, and its corollary;

Avoidance of Being Deceived and "Shaped": Take precautionary steps to avoid being deceived by the opposition.

Reward, Replenish, And Invest in Support Structure: After a successful strategy, be sure to allocate appropriate parts of the profits to all resources employed in the portfolio management and risk management activity.

Patience, Positioning, And Timing: Develop patience and discipline in positioning and timing the use of all resources in adapting to ever-changing circumstances.

Avoidance of Catastrophic Loss: Avoid catastrophic mistakes, by promptly adapting strategies and tactics to current circumstances, thereby, keeping the consequences of mistakes small and manageable.

Preservation and Protection of Resources: At all times, and especially when strategies are in play, seek to keep all resources in profitable and advantageous positions. Likewise, quickly liquidate unprofitable positions and minimize exposure to situations with inordinate risk to uncertain market movements.

The above provide a philosophical basis for effective, competent and professional portfolio planning and management. R. Tyrrell Rockefeller, Stan Uryasev and Michael Zabarankin of the Risk Management and Financial Engineering Lab in their Research Report # 2004-7 addresses all the above more specifically with mathematical models that compensate for the deficiencies of the capital asset pricing model (CAPM) with techniques for applying mean-lower partial moments, conditional value-at-risk and mean absolute deviation formulae. This approach reduces risk and increases return by optimally balancing a portfolio of drifting values in volatile markets that are ever changing and subject to external factors not necessarily included in CAPMs like wages, population and market cycles.

In the First Quadrants Investment Management Reflections article "The Costliest Errors In Institutional Management Assets" by Robert D. Arnott emphasize how human nature and its adversity to repeating successes and avoiding past errors, successes and failures and human nature to take the path of least resistance actually leads to less than

optimal returns for portfolio management and increases risk. These considerations are equally applicable to smaller portfolios and their planners and managers.

All of the above focus on stocks, bonds and other easily measurable assets. None address a complete portfolio including real property, non-traded stocks on corporations, LLCs, partnerships and proprietorships often included in the smaller investor port folio. All are predicated on a definable market value established through external markets.

Unbeknownst to most estate practitioners and financial planners and managers is that affordable external valuations are available, albeit hard to find, from a proper Broker's Opinion (sales and listings) and a business (intangible asset valuation) relying on the sales approach only based on a readily available national data base.

Estate managers, trustee's financial planners and financial managers can and should reduce risk, enhance optimal portfolio value, and reduce their personal liability with affordable, independent valuations of the neglected assets; real property and intangible assets. Of course patents, trademarks and copyright valuations require more because few databases exist to support valuations and each has a unique life cycle that must be addressed as values may be increasing or diminishing depending on their unique and individual income durability cycle.

In conclusion, we encourage guardians of the assets of others to address the values of the entire portfolio for optimization between client and market, risk and profit in the most professional manner while prudently taking care of the assets, clients and personal liability.

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