

CAPITAL ACCUMULATION



UTILITARIAN INVESTMENTS

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The Possibilities for investment are truly unlimited. Someone, somewhere will take any dollars you can spare for something! The vast variety of goals that people hope to attain by isolating investment dollars from spendable income is as limitless as the choice of investments. One thing all investors seem to have in common, however, is concern for the future.

Investments in this category have certain things in common. None generate income but all would be considered a hedge against inflation. Most are status symbols capable of being appreciated for their intrinsic beauty aside from any monetary or image building value they may possess. There is risk in this type of investment. Not only could there not be a profit on resale but perhaps worth in terms of dollars may decline during the time the investment is held. There are numerous reasons for assuming such a possibility, many unique to the particular investment (such as dry rot attacking an oriental rug, etc.) but there are two reasons they all share. First is the possibility that you as an investor did not "buy right" in the first place. That is why it is so important not only to buy from a reputable dealer but in many instances it would be prudent to enlist the services of a highly qualified professional adviser and perhaps have him make purchases for you. The second reason for an investment loss may be that the property was not held long enough. Appreciation occasionally happens overnight, but normally time is required. Often commissions are involved and the costs of buying and selling may eat up profits within a short time period and indeed these overhead costs may be responsible for the losses.

INVESTING IN COINS



It is important to buy with a long-term commitment in mind. It may be prudent to start with a "type set" at first (collection of one of each coin of a given series) but diversify as soon as possible to offset the effect of cycles in the volatile coin market. Try buying different metals; copper, nickel, gold and silver as well as coins from different time periods and locations. Always buy the best you can afford, choosing one quality coin over five of lesser quality. The worth of a particular coin is determined by its condition and rarity and has little to do with its face value or age. People sometimes purchase numismatic coins after hearing of spectacular profits as well as being attracted by their reputation as an inflation hedge. As with all investments I've labeled "utilitarian," it is imperative that you work with a well established reputable dealer. Collecting rare coins is an excellent example of combining hobby and investment.

STAMPS



Stamps, like the coins discussed above, are easy to store and transport. Most American investors are not as impressed by this fact as investors living in less stable environments might be. Gold, diamonds, coins and stamps have historically been a wise investment for those who anticipate having to flee from oppression or worse. Stamps are valued for their rarity and condition and are one of the few items in this world that increases in value due to someone's error. A printing mistake is, of course, rare and the resulting stamps are prized by collectors. Don't buy cheap

packets advertised in magazines but specialize in a particular location, time period or type of stamp, such as all airmail or sports oriented or animals, etc. If you are a serious investor and care more about the possible appreciation than the enjoyment of collecting, it may be worth your while to hire a knowledgeable adviser or agent to make acquisitions for you, paying him a five to ten percent commission on each purchase.

DIAMONDS



What has been said about stamps and coins as portable inflation hedges which should be purchased under careful supervision, the best quality you can afford and from reputable dealers is equally true for diamonds. The problem to overcome when investing in diamonds is the 30% to 100% markup between wholesale and retail costs. The average lay investor must buy retail and sell wholesale. The other problem is, of course, the volatility of the diamond market in spite of the De Beers Organization's heavy control. The appreciation of the diamonds, even if held for a long period, must be great to overcome this handicap. Serious investors should really purchase diamonds of four carats and up. This calls for a large commitment of investment dollars and may suit the relatively affluent investor who already has other diversified holdings. The value of a diamond is determined by how well it measures up to the "4Cs": carat (weight), color, cut and clarity. The utilitarian advantage of choosing diamonds as an investment are well known. The stones can be worn with satisfaction and pride by both men and women and this is in itself a very enticing attribute of this investment. A word of caution, however; the cost of elaborate settings has been known to diminish the appreciation a particular gem may have achieved over time.

PAINTINGS, PRINTS AND PHOTOGRAPHY

Young people and corporations have entered this field in remarkable numbers over the past ten years looking for an inflation hedge and appreciation of their assets. Of course, a side benefit is the beautification of the surroundings, whether corporate headquarters or home, while the investment is given time to increase in value. Naturally, there is risk, especially if works of a relatively new artist are purchased. Works of a deceased artist (signifying a limited supply) who has an already established reputation in the art world, is probably a more secure investment, but,

depending on the artist and the work, will probably cost more. In many cases, especially when contemplating large capital outlays, it is wise to engage the services of an adviser.



Many would suggest that you specialize in one area or built a collection around one theme but buy the works of a variety of artists. It is well to remember that a good drawing or print by the same artist may be worth more than a poor painting. Photography has gained in popularity because of its relatively low cost although retaining the same potential for appreciation and immeasurable pleasure ownership of paintings and prints offers.

ORIENTAL RUGS



Oriental rugs or carpets, are hand-woven products of the Near, Middle and Far East, the Balkans and the area between the Black and Caspian Seas. Their value is based on age (over 100 years is considered an antique and can enter the U.S. duty free), quality of construction (refers to density and fineness of weave), size (the larger the better), and place of origin. The celebrated Persian rugs are products of Iran and most sought after by some collectors while other prefer the Chinese rugs which are more readily available nowadays (1983). To maintain the value of oriental rugs they should be turned once a year and professionally cleaned every five years. Stay away from "traveling" auctions, although estate auctions run by a reputable auctioneer established in your area may yield some good values. Department stores are recommended places to buy, only make

certain you are getting the "real thing" for investment purposes, not machine made copies. As with all "utilitarian investments," it is wise to have your rugs revalued for insurance purposes on a regular basis and keep pictures of them in a safe place.

ANTIQUE FURNITURE



Collecting antique furniture is a great way to fill the need for household furnishings, investment and hobby at one fell swoop. Remember to be classified as an antique the article must be 100 years old at least. The value of an antique depends first of all on its verifiable authenticity. Secondly, the quality and construction of your particular piece, followed by consideration of age and locality. Although it is a good idea to make acquisitions at auctions rather than pay the retail markup, it may be even cheaper to engage someone knowledgeable to handle such purchase for you. One word of caution from a mother of five; because of maintenance and preservation of your investment this is obviously a poor investment for people with young children.

GOLD SILVER PLATINUM



These precious metals are used for jewelry, eating and serving utensils and in industry but they are more than utilitarian. There is a worldwide market for gold and silver making them more liquid than most investments in this category. However, platinum is traded only on one U.S.

commodity exchange. There are several forms an investment in one of these metals might take. The most conservative being the purchase and physical holding of the metal itself.

Many people hold gold Kruggerands (South Africa), or Maple Leafs (Canada) and bags of junk silver (American pre-1964 coins). It is not wise to buy commemorative sets privately minted or actively promoted *wafers* because of the high premium charged over the bullion price. Investors concerned with preserving capital and purchasing power should lose nothing by holding the metal long-term and using the dollar-cost-averaging concept discussed elsewhere. These metals are excellent inflation hedges and although there is potential for loss in the short run, history shows they have appreciated over the long haul. Many advisers recommend a certain portion of every client's portfolio include these metals, especially gold, to balance stocks and other investments that may sour in response to bad national or worldwide economic news or disaster. Because bad news pushes gold up it is often used as an insurance or defensive investment.

A less conservative investment in gold, silver or platinum is to purchase mining shares. The fact that these stocks pay dividends is an attraction for some people. An even more speculative investment in these metals would be the purchase of highly leveraged future contracts. There are many excellent books written about investing in precious metals. (See recommended reading list at the end of worksheet.)

A FANTASY INVESTMENT INVESTING IN MOVIES AND THEATRICAL PRODUCTIONS



I realize that you, the average person reading this book, is never going to invest in motion pictures or theatrical productions because the minimum amount required starts at a low of somewhere around \$25,000 ranging up to more than \$200,000 a unit (piece of the action), but wouldn't you like to dream about it?

The main attraction is the opportunity to participate in a fantasy. There is glamour surrounding the motion picture industry and even if you never get to actually rub elbows with the stars, directors and producers whose names you see on the screen, a certain amount of excitement does rub off. Perhaps the fantasy is that in return for your \$50,000 or \$100,000 you're going to make millions. Ridiculous but not impossible. This is perhaps the investment with unlimited

possibilities, for certainly there is little relationship between the size of the investment and the potential profits. Sure a stock can skyrocket and an oil well can turn out to be a real gusher but the possible profits from such good fortune can be more easily predicted and calculated than can profits from a block-buster movie. Records are constantly being broken in this area and there are T.V. and videotapes and other subsidiary profits. Remember, it is customary for the investor to share in fifty percent of the profits and this can be accomplished by limiting risk by investing through a limited partnership. Don't despair, even if you don't know any producers personally you can gain access to these investments through the major investment houses. You should be aware that the brokers' commission generally runs eight to ten percent of your investment, but you are paying for advice and guidance in an area in which you are very likely a novice.

Although unlimited profits, coupled with limited risk, may sound good, the odds are so weighted against success in this industry that many investors in the past went into this type of investment hoping to deduct losses larger than their individual investment. This practice has been stopped by Section 465 of the Internal Revenue Code known affectionately as the "At Risk" rule which basically says that a person cannot declare losses beyond the amount of his investment in the project. Profits, should there be any, are treated as ordinary income rather than enjoying the benefits of the lower tax rates accorded capital gains. There are, however, investment tax credits and depreciation allowances but it should be readily apparent that possible tax advantages are not a motivating feature for this investment.

If I had a spare \$25,000 bill laying around and I only had a couple of years to live, I might prefer the aura of investing in a motion picture to that of placing a bet in Vegas. Both are long shots and both offer the possibility of making a disproportionately high return in a relatively short period of time. To other people the appeal is the intangible benefit of being associated with the production of an artistic work. This is the motivation for many benefactors. It would appear that the majority of investors in this industry must be prepared to lose and get a thrill or some sense of accomplishment wholly divorced from economics.

Perhaps you have your own scenario for making this kind of investment. If all criteria should come together-- well, bon chance!

SUMMARY

If you are a novice investor rely on a knowledgeable adviser until you have reached a certain investment goal. If you're full of curiosity and have a spirit of adventure, go ahead and indulge it by testing some of the more exotic investments, like horses, oil/gas, options, futures, commodities, etc., but only with *risk* or *mad* money. You never want to throw money away except as a benefactor when you know the project is not economically sound but it is undertaken as a cause; a contribution to society as discussed briefly in the discussion of motion picture investing. See that your adviser is doing his homework; never become totally dependent on anyone!

Before you commit your dollars to any investment see how it measures up in terms of security, yield, diversification and liquidity. Make certain it provides protection from creditors by using a trust, for instance. Factor in the period of time it should be held. Be aware of the tax advantages

and use as an Inflation hedge, if any. Recall the three Cs: Callability; Convenience and use as Collateral. Then ask yourself three important questions: can you afford the amount needed for this investment; does it offer freedom from worry and am I absolutely certain it's legal. The utilitarian investments discussed here have been categorized to some extent in the following worksheet which you should adopt to your individual situation.

Worksheet

By now you should have a pretty good idea of what you personally are looking for in an investment. Write that down in your notebook. The investments discussed in Chapter 14 are listed here with a few characteristics of each placed in a "PLUS" or "MINUS" column. Assign your own plus and minus system to these and any other investments you are considering. For instance, if you believe inflation is under control "inflation hedge" would not go in your particular "Plus" column. If you don't need current income the fact that no income is generated by an investment would not go in your "MINUS" column, etc.

| Investment | "PLUS" | "MINUS" |
|------------|---|--|
| Coins | hobby inflation hedge small amount. needed moderately liquid portable | fluctuating market needs adviser risk no income |
| Stamps | hobby inflation hedge small amount. needed moderately liquid portable | fluctuating market needs adviser risk no income |
| Diamonds | inflation hedge portable pride of ownership | large amt. of \$\$ needed high markup fluctuating market needs adviser risk no income |
| Paintings | inflation hedge pride of ownership | amt. needed ? risk of appreciation need adviser no income |

| | | |
|-----------------|---|--|
| Prints | inflation hedge pride of ownership cheaper than above | risk of appreciation need adviser no income |
| Photography | inflation hedge pride of ownership cheaper than above | risk of appreciation need adviser no income |
| Rugs | inflation hedge pride of ownership | amount. needed? must be maintained no income may need adviser |
| Antiques | inflation hedge pride of ownership | amount. needed? must be maintained no income may need adviser |
| Precious Metals | inflation hedge liquid | no income fluctuating market possible regulations |
| Movies & | tax advantages glamour potential high, fast profits altruism | high risk large amt. needed no salvage value |

Recommended Reading

Encyclopedia of Investments, by Marshall Blume & Jack Friedman

The Commodity Futures Game, by T.W. Stone

How the Experts Buy & Sell Gold Bullion, Gold Stocks & Gold Coins, by James Sinclair & Harry Schultz

Guide to Antiques & Collectibles, edited by Thomas Hudgeons III

Know Your Collectibles, Antique & Collectibles Price List, by Ralph & Terry Kovel

Options As A Strategic Investment, by Lawrence Macmillan

The Commodity Futures & Market Guide, by Kroll & Shisko

How to Buy & Sell Gems, by Benjamin Zucker

How to Invest in Strategic Metals, by Bohdan Szuprowicz

How to Trade Put & Call Options, by Lawrence Rosen

Investing in Natural Resources, by Walter Youngquist

The Fastest Game in Town; Commodities, by Mark Robert Yarry
The New Options Market, by Max Ansbacher
Stamps for Investment, by Kenneth Lake
Your Gold & Silver, by Henry Merton
Practical Guide to Antique Collecting, by Geoffrey Wills
The Stock Options Manual, by Gary L. Gastineau
How to Buy Gold, by Timothy Green
How to Invest in Gold Stock & Avoid the Pitfalls, by Donald Hopp