

# Current Observations

## Steady As She Goes *By Paul Sutherland, CFP®*

One thing that has sustained successful companies over time is a well-developed moral compass. A company that loses its moral foresight will eventually fail as it causes pain to its employees, society, communities, other stakeholders and, of course, its shareholders. Few public banks, brokerage firms and finance firms whose morality have lapsed went unscathed when their focus strayed from their clients and honed in on their short-term gains.

For years Toyota focused its efforts on building quality and reliable vehicles. However, when their focus changed to becoming the largest automotive manufacturer, they subjected themselves to very serious consequences, which we've all seen in the news lately. The destruction of the U.S. auto industry was a result of upper management's desire to use financial leverage to increase share prices at the expense of building quality vehicles at affordable prices. The new set of organizational pressures and incentives, with few options to obtain goals with legitimacy, has altered judgment and choices. Today, there aren't as many "car guys" in upper management positions at the auto companies. Rather, financial engineers seem to have taken over.

Finances are indeed important, but from my experience those companies that put their customers' needs first run a conservative financial profile. Any reasonable and educated person with an ounce of common sense knows that the world is always changing. Common sense managers know that customers' wants will change, innovation will make last year's products less desirable, and that customers and clients need quality products and need to be treated with respect and gratitude.

### Growth in Earnings per Share (EPS)

It seems that private companies do a much better job with a virtue-oriented business model than public companies, with is rational. Public corporations



According to Ibbotson Associates, dividends have provided approximately 45% of the 9.62% on average annual total return on the S&P 500 index from January 1926, through December 2008. The S&P 500 index is an un-managed index of 500 stocks used to measure large-cap U.S. stock market performance. The index cannot be purchased directly by investors.

continued from page 1

are judged mostly on growth in earnings per share (EPS), profit growth and shareholder return. As an investment manager we want to invest in companies that place value and emphasis on their product or service and who care about their employees, shareholders and other stakeholders with equal reverence. We also seek out family-owned/operated companies in which the major shareholders are the families themselves.

### Dividends Matter

Anecdotally it seems that companies with conservative finances and virtue-oriented management think that paying their shareholders good cash dividends is just good business. At FIM Group we seek out companies that pay good dividends, have a history of paying dividends, are well-capitalized, have conservatively managed financial structures and have a record of profitability coupled with great quality products and services.

We also project into the future and anticipate whether we can see companies' cash flows and dividends increasing over the years. In last month's *Current Observations*, we included an internal flow chart that overlays our stock investment process. There are a significant amount of parameters that go into selecting a stock for a portfolio; however, dividends are an emphasis, particularly for those clients who are near retirement or are enjoying it currently.

### It Pays to Be Global

FIM Group has always been a global manager. When it comes to dividends, global is where it's at, as illustrated in the FIM Group holdings dividend chart.

As you can see, the cash dividend yields in the chart have an average dividend yield of 6.39%. To give some perspective, the current dividend yield for the S&P 500 index is just 1.84%. Since 1926, 45% of the U.S. total return from the S&P 500 was from dividends. From that we can logically assume that even in our robust growth booms in the 1950s, 1960s, 1980s and 1990s, dividends do matter. In the rapidly growing economies and companies we

## GLOBAL COMPANY YIELDS - MARCH 2010

FIM Group Holding	Location	Main Business	Current Dividend Yield
<b>Chunghwa Telecom</b>	<b>Taiwan</b>	<b>Telecommunications</b>	<b>6.06%</b>
AT&T	USA	Telecommunications	6.36%
<b>Macquarie Intl. Infrastructure</b>	<b>Australia</b>	<b>Transportation, Communications &amp; Energy Infrastructures</b>	<b>6.30%</b>
Energias De Portugal	Portugal	Electricity & Gas	5.44%
<b>Otter Tail Corporation</b>	<b>USA</b>	<b>Electric Utility</b>	<b>5.38%</b>
Terna	Italy	Electric Utility	5.90%
<b>Enerplus</b>	<b>Canada</b>	<b>Oil &amp; Natural Gas</b>	<b>9.06%</b>
BP	UK	Oil & Petrochemicals	5.86%
<b>Royal Dutch Shell</b>	<b>Netherlands</b>	<b>Oil &amp; Petrochemicals</b>	<b>6.01%</b>
ENI	Italy	Energy	5.90%
<b>Enel</b>	<b>Italy</b>	<b>Electric Utility</b>	<b>6.47%</b>
Eli Lilly	USA	Pharmaceuticals	5.36%
<b>SMT Scharf</b>	<b>Germany</b>	<b>Transportation Systems</b>	<b>6.16%</b>
Oesterreichische Post	Austria	Postal Services	7.11%
<b>Singapore Post</b>	<b>Singapore</b>	<b>Postal Services</b>	<b>5.84%</b>
Brookfield Real Estate Svc.	Canada	Real Estate Brokerage	10.65%
<b>Criteria CaixaCorp</b>	<b>Spain</b>	<b>Investment Management &amp; Financial Services</b>	<b>6.61%</b>
Swiss Water Decaf Coffee	Canada	Food	9.56%
<b>Total Produce</b>	<b>Ireland</b>	<b>Food</b>	<b>4.70%</b>
Pargesa	Switzerland	Financial, Commercial & Industrial Holding Company	3.12%

*The above chart is for illustrative purposes only and in no way represents all holdings in client accounts. The above securities may not be owned by all clients and were highlighted because of a) their higher than average yield when compared to the rest of the holdings, and b) because they are held in a large number of client accounts. The securities selected above were chosen to illustrate securities held in client accounts that have high dividend yields – the majority of holdings in client accounts have a dividend yield lower than those shown above, thus the average yield for an entire portfolio would be lower than the yields expressed above. Securities listed above do not constitute a recommendation to either buy or sell such securities and FIM Group may add to or remove these positions from client accounts as it deems appropriate. Current yields are subject to market movements and will fluctuate daily. All data was provided by Bloomberg and is believed to be accurate.*

\*Source: Bloomberg LP; 3.22.10

favor, we expect (especially for retirees who need cash income now, not growth later) a similar positive end result.

### Four Winds of Positive Performance

There are four return components for a global investor: 1) Dividends; 2) Growth in underlying share value through increased earnings; 3) Increase in share value as investors are willing to pay more for those earnings (PE expansion); and 4) Currency returns. For example, if you own a Swiss, German, Singapore or

non-U.S. company, there is potential for capital appreciation purely by the U.S. dollar weakening against the currency. Of course it could go against you, and as we know currencies, investors' psychology and earnings can go up and down, and if a company's prospects or markets weaken dividends could be reduced or eliminated. That is one reason FIM Group believes indexing portfolios is a losing strategy. Why wouldn't you want to sell investments as their prospects erode and embrace investments with good prospects? The asset allocation chart by country indicates

continued from page 2

FIM Group’s investment around the globe. Our portfolios are well-diversified and actively managed, which helps reduce volatility and increase the potential for steady returns over time.

### Adam Smith and Doing the Right Thing

I am a believer in free market capitalism. I am also realistic about human nature and realize that many people will be driven by greed, ego, lack of a moral compass or plain ignorance. Many unethically manipulate the “system” to their benefit at the expense of others. Typically unethical business practice involves the cooperation of others and reflects the values, attitudes, and beliefs that define an organization.

According to Stephen Young, global executive director of the Caux Round Table, an international network of principled business leaders working to promote a moral capitalism, “Moral sentiments stand for the proposition that listening to our moral sense, exercising our capacity for sympathy for others, and listening to an inner source of wisdom is the proper standard for human conduct. *Wealth of Nations*, by Adam Smith (1776) on the other hand, is often portrayed as a work that elevates self-regard as the proper norm for our interactions and that proudly grounds capitalism on self-seeking of profitable advantage.”

Humans naturally seem to know right from wrong, and Adam Smith felt that people would be guided on balance by moral- and virtue-oriented principals, either self-imposed, or socially imposed by religion, government or laws. I grew up being taught to do the right thing, and as a result an underlying tenet in FIM Group’s philosophy is to favor companies that seem predisposed toward doing the right thing.

I have been reading *How to Create a Winning Organization* by John Wooden and listening to his audio book about his philosophy with my 15-year-old son. Coach Wooden’s ten NCAA championships, Coach of the Century Award and pyramid of success (see diagram) prove to me that having a well-developed moral compass results in success – but as he says, that is not the point – the point is doing the right thing.

ASSET ALLOCATION BY REGION	
Country	Percentage of FIM Group Portfolio
Africa	9.0%
Asia	12.8%
Australia/New Zealand	1.7%
Canada	2.4%
Europe	15.8%
United States	66.4%

\*Source: FIM Group

The above chart is for illustrative purposes only. The asset allocation range shown above is a combined view of all FIM Group-managed accounts and does not reflect an actual client account or specific management style. Client accounts may have greater or lesser exposure to the above shown regions depending upon such factors as account type, risk assessment and any restrictions on the account. Regional allocations are subject to changes as deemed appropriate by FIM Group, as well as market changes. If you have any questions regarding this data or your specific regional asset allocation, please contact your nearest FIM Group office. All data was drawn from FIM Group’s internal accounting system and is subject to FIM Group’s determination of regional characteristics.



# Refer with Confidence

By Jim Frye, CFP®

Nearly every day people ask us, “Is FIM Group accepting new clients?” The short answer is “absolutely!” While FIM Group devotes a lot of effort, resources and time serving our clients, we also devote time and resources through our marketing and outreach programs to helping new clients. Without a doubt though, we have grown at a very robust rate over the years primarily through referrals from our existing clients and associates.

So first, a big THANK YOU to everyone who has referred people to us over the years. Your contributions have indeed helped make FIM Group a success. The highest compliment we can ever receive is a referral, and we would be delighted to meet with your friends, family or colleagues who are experiencing a “life event” or who may benefit from our active investment management and financial planning process.

Examples of a “life event” would include retirement, the sale of a business, an inheritance or a change in family status. Or, perhaps, you may know someone who is simply looking for a competent, objective, experienced, fee-only adviser. In either case, you can count on us to follow up promptly with all client inquiries, and you can rest assured that your referrals will be treated with professionalism and courtesy. We will gather the relevant information to understand their goals and constraints and together determine whether FIM Group is the right fit for helping them achieve their investing objectives.

If you think FIM Group would benefit a friend or colleague, or if have any questions, you may contact any of the FIM Group advisers below:



We sincerely thank you for your confidence in us and willingness to share good words about us with your friends and family.

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# FIM GROUP INVITES YOU TO REFORM AND REVOLUTION.

THE COMING REVOLUTION IN HEALTH CARE: ARE YOU READY?

## Unprecedented Change Is Sweeping the U.S. Health Care System.

From health care reform legislation to major reimbursement changes underway, the industry is being pushed forward on numerous fronts to respond to demands from purchasers, payers and consumers. Just what is it that purchasers, payers and consumers want from the new health care plan? And how will they get it? Most of all, how will hospitals and physicians be compelled forward into fundamental changes in terms of care delivery, patient safety and care quality, efficiency, accountability and transparency, and consumer responsiveness? And how might these changes affect the practice of medicine? Nationally recognized health care journalist and speaker, Mark Hagland, will share his insights as an objective and impartial observer of the industry for more than two decades.

### About Traverse Health Clinic

Since the mid-1970s, Traverse Health Clinic has been a community-based, nonprofit, 501(c)(3) organization dedicated to providing access to affordable health services through community collaboration to people in need in Benzie, Grand Traverse and Leelanau counties. The clinic's operations are sustained in large part through private financial contributions and volunteer services from area providers, and touch the lives of 2,300 adults every month.

To learn more, please visit [www.traversehealthclinic.org](http://www.traversehealthclinic.org).

### Traverse Health Clinic



because everyone deserves good health

WHAT: Health Care Event & Presentation  
**Featuring: Mark Hagland,**  
Nationally Recognized Independent  
Health Care Journalist

WHEN: **5:30 PM, April 29, 2010**

WHERE: The Hagerty Center  
at Northwestern Michigan College

Unprecedented change is sweeping the U.S. health care system. How might these changes affect the practice of medicine and ultimately you and your family? Join us for an hourlong discussion with Mark Hagland, who will share his insights as an objective and impartial observer of the industry for more than two decades.

*Tickets are just \$25.00 per person with 100% of the proceeds benefiting Traverse Health Clinic. Ticket prices include complimentary food and beverages. Find out more at [www.fimg.net](http://www.fimg.net) and [www.traversehealthclinic.org](http://www.traversehealthclinic.org).*



# FIM Group Would Like Your Feedback

We realize that you are probably asked to take surveys all the time. Often they are long and daunting but we have created a very short survey so that we can continue to provide exceptional client service. This survey is posted on our home page of [www.fimg.net](http://www.fimg.net). We would greatly appreciate you taking less than five minutes to provide us with constructive feedback on how we can serve you and other clients better.

Please visit [www.fimg.net](http://www.fimg.net) and click on the “FIM Group Survey” button.



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