

Quarterly Newsletter

1st Quarter - 2007

Market Overview:

The first quarter of 2007 turned out to be a volatile one for international as well as domestic stock markets. In February, the US stock market had its largest percentage daily decline in over 3 years as there continued to be more fear of a market slowdown on horizon. The following table summarizes the relevant stock and bond market returns for the 1st Quarter of 2007 and the past 3 years:

Returns* ended 3/30/2007:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index (Ticker: VTI)	1.33%	11.05%	10.92%
MSCI World Index (Ticker: EFA)	4.15%	19.95%	19.50%
Lehman Aggregate Bond Index (Ticker: AGG)	1.36%	6.13%	3.01%

As always, Remick Capital accounts will be managed for the long term, and any volatility will be looked at as a possible opportunity to buy new (or existing) investments at attractive prices.

Commentary – Investing versus Gambling:

There is an age old question surrounding investing that has likely been discussed as long as there have been stock markets. **“How is ‘investing’ (in stocks or bonds) any different than ‘gambling’ (on horses, or blackjack)?”**

I’ve been asked this general question many times recently, and I thought a short discussion may be useful.

The correct answer to the question, at least from my perspective, is both simple and complex. In the simplistic sense, investing is exactly like gambling. You handicap the odds, try to forecast what chance you have of obtaining various payouts, and then you allocate your funds to the most attractive ‘bets’ that you can find. You will of course have some bets that will pay off handsomely, and have some that become duds. In the end, you hope that in total, your results will be a positive increase in your wealth.

While I agree with the above response in principal, the devil is in the details. Most forms of gambling differ drastically from investing in two major ways:

1) In gambling, your expectation of return is negative. Meaning for every \$1.00 bet you take, your expected return is to get back perhaps \$0.98-0.99 (in the case of blackjack) or perhaps as little as \$0.80 (in the case of horse racing). With each round, the ‘house’ takes a small (or perhaps large) cut of the potential payout and makes the overall game less than a zero sum game. Contrast this with investing in the aggregate total of all US Stocks, which have over many decades produced a return of around 6% above inflation on an annual basis.

It is this positive bias that I believe makes the stock market so attractive vis-à-vis what is commonly called ‘gambling’. On *average*, public companies make money for their shareholders over time, and by owning a few small pieces of these companies, you can participate in the profit. Of course gambling makes money for its *shareholders* too (who are generally collectively referred to as “the house”)... which is why it doesn’t make money on average for the individual players.

* The Wilshire 5000 Index is a collection of stocks that is designed to approximate the returns of the entire US Stock Market. The MSCI World Index is a collection of stocks that is designed to approximate the returns of the global stock market with US stocks removed. The Lehman Aggregate Bond Index is a collection of bonds that is designed to approximate the returns of the entire US Bond market. All returns are based on Exchange Traded Fund (ETF) returns to make the numbers representative of actual investor returns.

2) Another less fundamental difference between gambling and investing is the approach by which 'most' patrons address the endeavor. In gambling, most people understand that their primary objective is to have fun, and not to make money. It is primarily a task undertaken for entertainment. Investing on the other hand is generally a pursuit that is not seen as enjoyable; it is primarily viewed as a means to an end (i.e., to make your money grow into more money).

While it is true that many gamblers approach their craft very seriously in a professional way, and that many people who refer to themselves as 'investors' are doing little more than gambling, in general I believe the differences in mentality between a gambler and an investor are clear.

Investing is an endeavor where through hard work you attempt to turn a profit out of a series of events that already have a reasonable expectation of profit. While gambling is an endeavor where through hard work you can attempt to overcome odds that have been stacked against you and attempt to make a profit.

As Claude Shannon, a famous mathematician and engineer once said: "*Gambling and Investing only differ in one minus sign.*"

Investing is all about looking for opportunities where the odds are most in your favor. This is where we seek to allocate our investment dollars. Gamblers may also use this strategy, but I believe to obtain the same level of return in typical gambling, the gambler must be a true savant indeed.

At Remick Capital we will focus *investing* our clients' money, and we will leave the gambling to those who are more gifted or inclined to the task. As always, my money will be invested right along side yours so you can be sure that I will work diligently to make sure our investments will be profitable ones; regardless of the market conditions. I appreciate the faith and trust you have placed in Remick Capital as your Investment Advisor; I will work hard to make our relationship as mutually profitable as possible.

In future quarters, I plan to discuss more specific investment ideas in detail, but since I am still in the process of purchasing investments for many accounts, I do not think it is appropriate to discuss any current investment ideas at this time.

Sincerely,

Benjamin Hacker
Principal
Remick Capital, LLC