2014 INVESTMENT GUIDE

SPECIAL ISSUE

Forbes

365 WAYS TO GET RICH

STOCKS TO BUY NOW
NEW TAX TRICKS • REAL ESTATE TACTICS
SECRETS FROM INVESTING LEGENDS
PLUS: THE ONE INVESTMENT TO AVOID AT ALL COSTS

WHAT'S THE BIG DEAL ABOUT DIVIDENDS NOW?

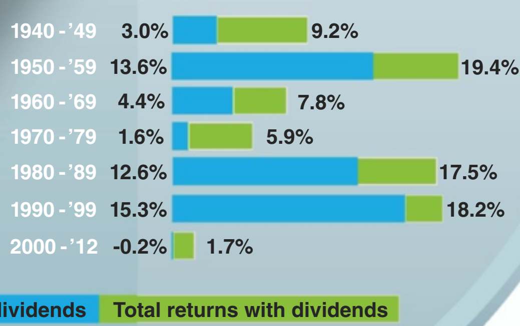
Dividends can be a key source of stock market returns.

40%

of total stock returns come from dividends.[1]

WHAT IF THERE WERE NO DIVIDENDS?

Dividends have accounted for up to 70% of annual returns in the stock market. In fact, dividends can be the difference between a net loss and a net gain.



Source: Morningstar® EnCorr®, FMRCo, as of 12/31/2012

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

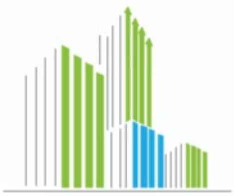
Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

Preferred securities are subject to interest rate risk. (As interest rates rise, preferred securities prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Preferred securities also have credit and default risks for both issuers and counterparties, liquidity risk, and, if callable, call risk.

Dividends have been rising faster than earnings.[2]

$1.8 trillion



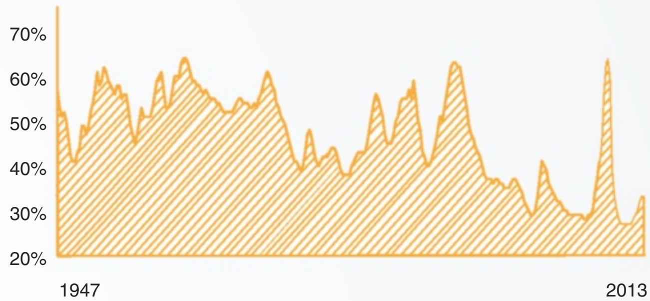
U.S. companies have $1.8 trillion in cash — the highest level in history.[3] This cash can serve as an important source of capital return for shareholders.

CHARACTERISTICS OF DIVIDEND-PAYING COMPANIES

- Stable, mature businesses
- Steady cash flow
- Relatively stable profits
- Tend to be lower risk and less volatile

50-year lows

Payout ratios are still near 50-year lows, suggesting plenty of room to rise.



Source: Standard & Poor's, Haver Analytics, Fidelity Investments (AART), through 6/30/13.

Put our dividend funds to work for your portfolio.

FEQIX FIDELITY® EQUITY-INCOME FUND

This fund seeks a yield that exceeds the yield on the securities in the S&P 500® Index.

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Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

Past performance is no guarantee of future results.

[1] Source: Morningstar® EnCorr®, FMRCo, as of 12/31/2012.

[2] Source: FMRCo and FactSet.

[3] Source: FMRCo, Haver Analytics, as of 12/31/2012.


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42 MM CASE AND BRACELET IN STEEL, MECHANICAL MANUFACTURE CHRONOGRAPH MOVEMENT, SELF-WINDING, CALIBRE 1904-CH MC (35 JEWELS, 28,800 VIBRATIONS PER HOUR, APPROXIMATELY 48 HOUR POWER RESERVE), CALENDAR APERTURE AT 6 O'CLOCK, STEEL OCTAGONAL CROWN, SILVER OPALINE SNAILED DIAL, SILVER FINISHED CHAMFERS.

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Credit Suisse is in Brookfield Asset Management's corner as they take on the world's equity markets.


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BEIJINGETOWN

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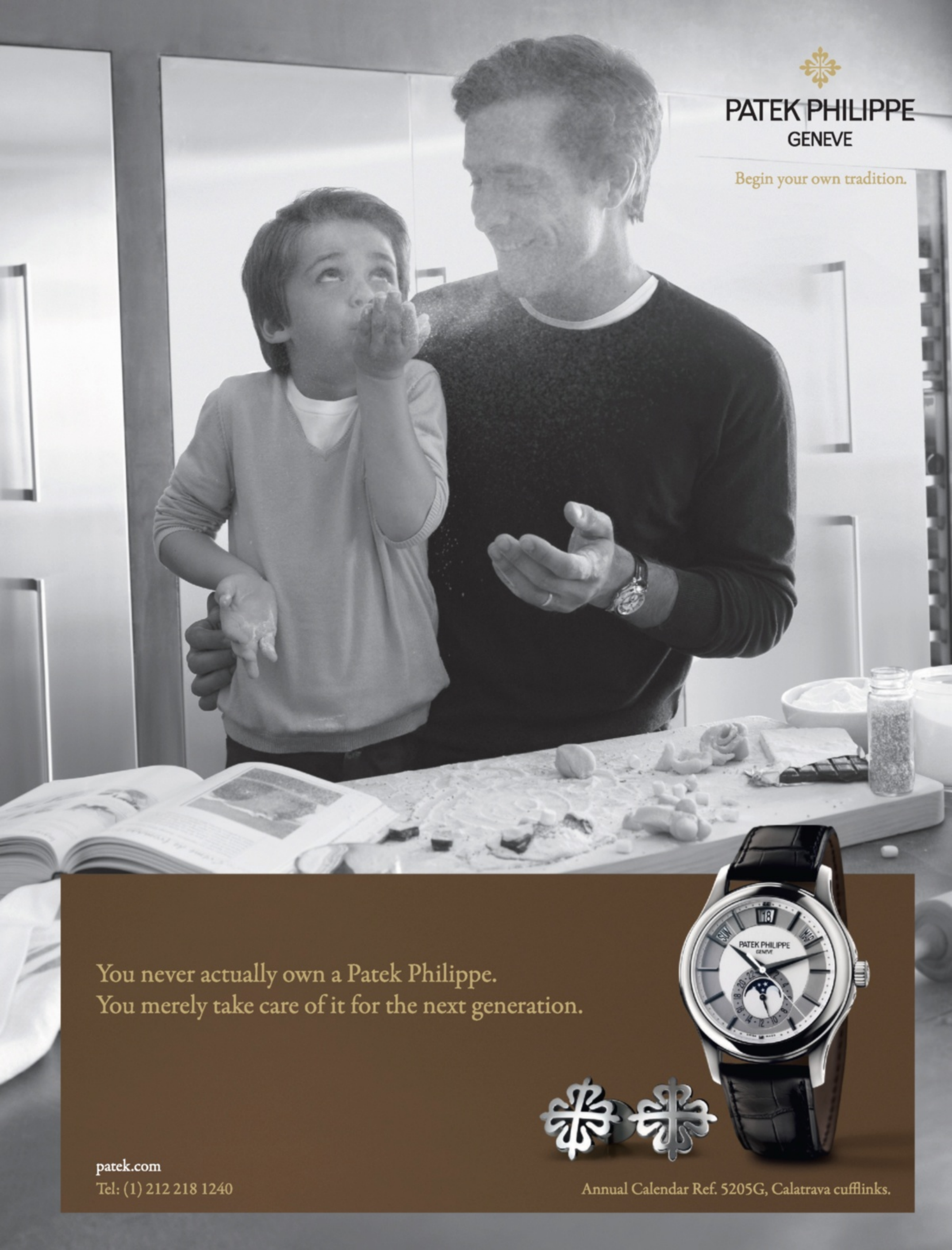
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kia.com

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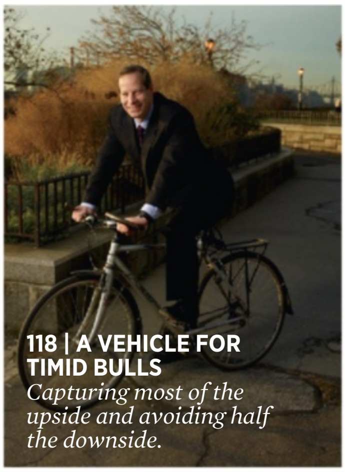

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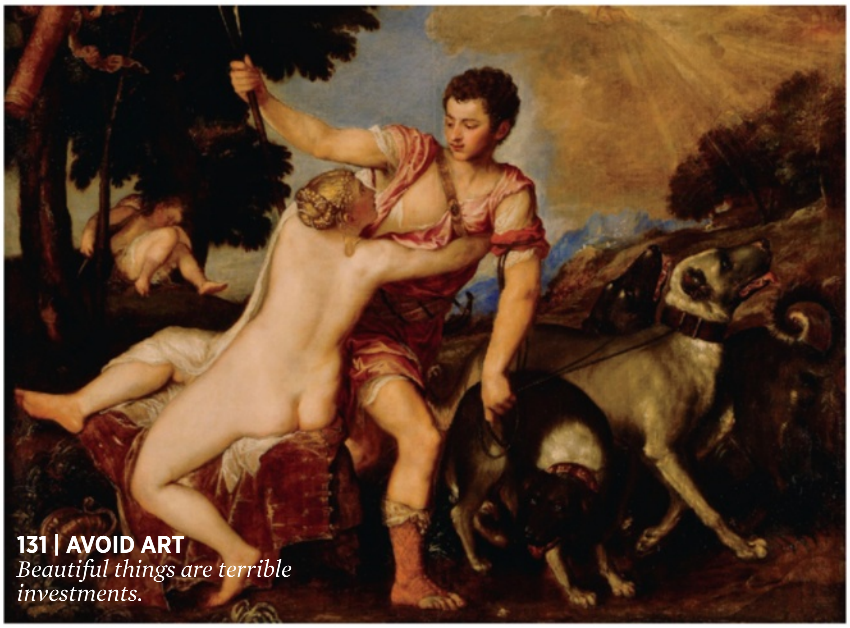

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INVESTMENT GUIDE

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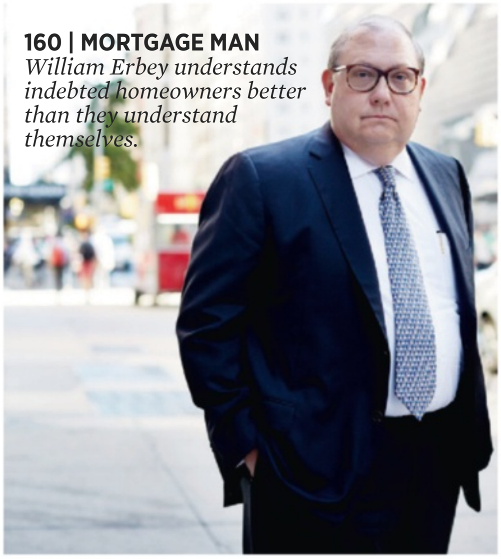

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LIFE

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IN BRIEF

The Rewards Of Cultural Innovation

BY LEWIS D'VORKIN

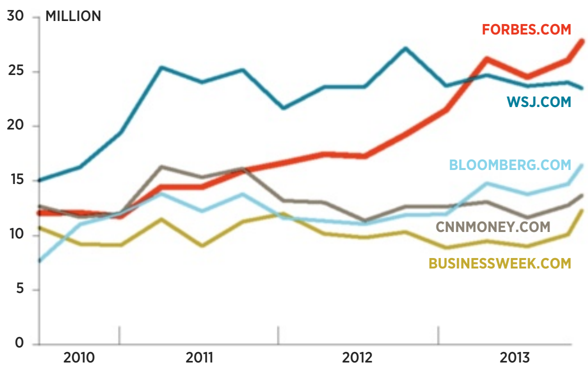
I've been on a 40-year journalistic journey, from a wire-service world to the era of social media. Rather than abide by the newsroom culture that I got hooked on early, I've worked to bend it to the economic realities and technological disruption facing the business. News traditionalists would say FORBES is blowing up a century of journalism. I prefer how our CEO, Mike Perlis, puts it: We're creating products that are meaningfully different, not simply better versions of what already exist.

The essential mission of journalism is to inform—to observe, select and interpret, with all the biases that entails, conscious or not. That's always top of mind as we work to change the culture of publishing by reinventing long-standing labor, content and advertising models. We now have full-time reporters and 1,200 topic experts writing for our digital readers. Our marketing partners offer their insights, too, in a first-of-its-kind program. Never before have so many knowledgeable voices engaged with a FORBES audience equally empowered to share what it knows.

Innovative models demand innovative products. I'm particularly excited by these: a new FORBES magazine app coming in January that will create a unique social experience; updated desktop and mobile streams; an e-book program that will offer consumers in-depth information; and new wealth lists that reflect real-time market data.

Journalism is in transition. Some newsrooms are subsidized by high-priced professional services. Others are resorting to nonprofit models. FORBES continues to believe the most sustainable journalism is that which supports itself through profitable, innovative excellence. F

OUR GROWING AUDIENCE



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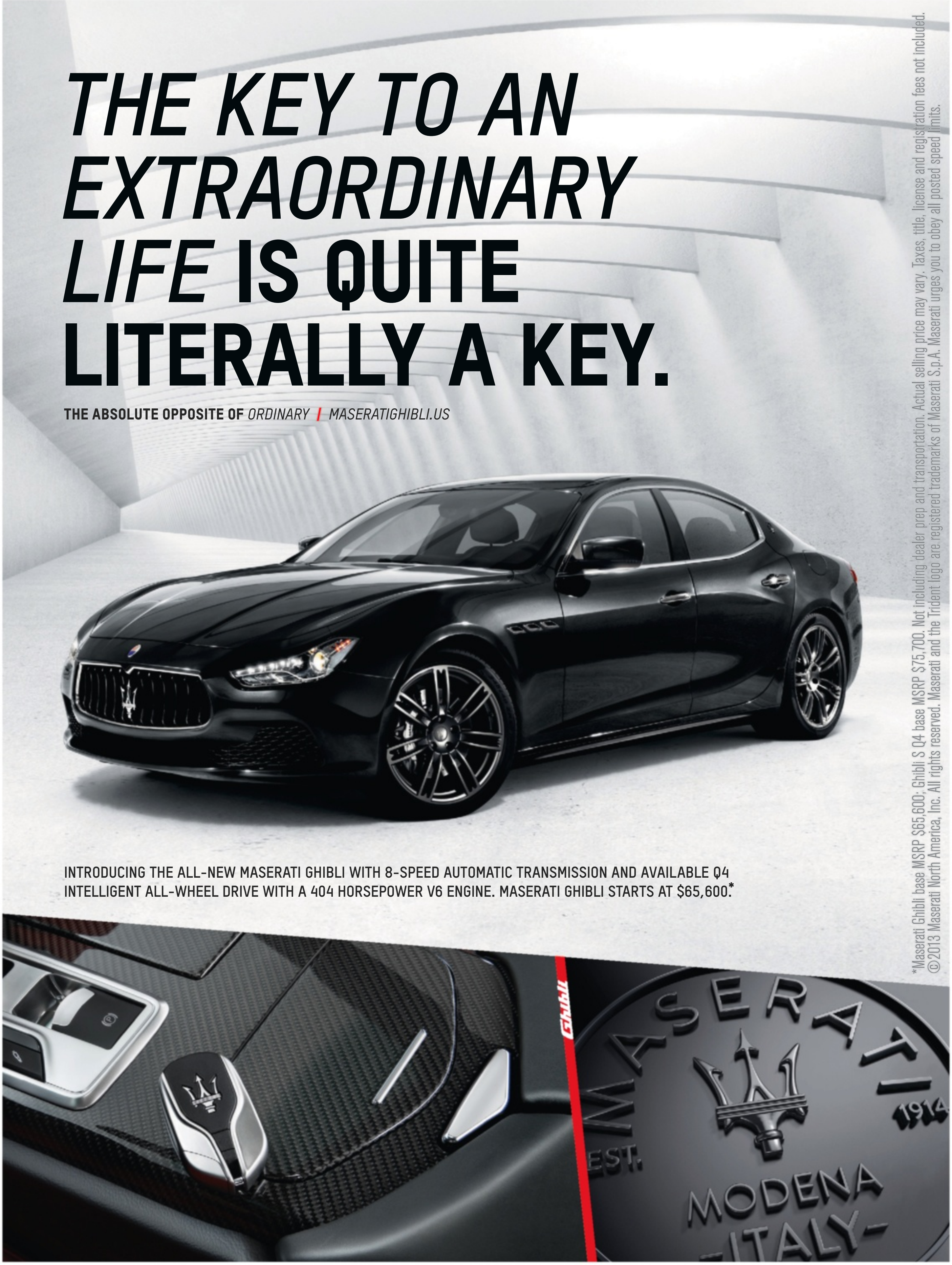


FACT & COMMENT — STEVE FORBES

"With all thy getting, get understanding"

A SHAMEFUL DEAL AND A DANGEROUS ONE, TOO

BY STEVE FORBES, EDITOR-IN-CHIEF

ON MAY 24, 1940, as the Allied military situation in France was rapidly deteriorating, Britain's foreign minister, Lord Halifax, made a drastic proposal at a meeting of the War Cabinet: Britain should explore a separate peace with Nazi Germany.

Winston Churchill was horrified, hammering home the profound truth that once talks started they would rapidly take on a life of their own; the war would be over, leaving Britain at the mercy of the Nazis. Churchill stressed that Hitler was implacable.

The mullahs of Iran are implacable and are absolutely determined to get the bomb. The Iranian economy is in shambles. The sanctions, which took years of painful diplomacy to put in place, were finally taking a real toll, and Congress was ready to enact more severe ones. Yet there was Secretary of State John Kerry, oblivious to what Churchill knew about implacable opponents. His deal with Iran is a disaster. The sanctions will begin to crumble. Iran's nuclear weapons efforts will be barely dented by an agreement that has loopholes bigger than the proverbial dump truck to drive through. And now this negotiating process will take on a life of its own. Iran knows the U.S. must keep the talks going lest it look like it failed.

Kerry may not know what he's doing, but President Obama knows exactly what this means: Iran will become a nuclear power. Obama's position is for us to get over it and cope with the new reality. To him the U.S. presence in the world is a force for bad, and Iran is an aggrieved power that the U.S. and Britain didn't do right by back in the 1950s, if not earlier.

Israel's security? Obama thinks it brought on most of its troubles itself; anyway, Iran probably won't nuke it, so what's the big deal?

Will the Saudis and the Turks now go nuclear? In Obama's worldview they can do what they want. As long as the U.S. isn't involved, the world is a better place.

But an increasingly dangerous and hostile world won't leave us alone. Sorry, Mr. President, America is not the source of evil. Trouble is, the American people will pay the price for your folly.

Where does this leave Israel now? The U.S. has refused to take military action against Iran's nuclear facilities, but Israel has come close to doing so on its own more than once. In the spring of 2012 Israel decided to attack. The U.S. moved major military "assets" to that part of the world to deal with the fallout, even as Washington was pressuring Jerusalem to back off. Israel did just that, and then backed off again in the fall, when it revisited the attack option.

Israel is boxed in. Understandably, that small country is reluctant to go against the wishes of its only ally. But Iran is one of those rare cases in which Israel should have risked Washington's displeasure and done what needed to be done, just as it did in 1981, when it bombed Saddam Hussein's nuclear facility, and in 2007, when, despite opposition from the Bush Administration, it destroyed Syria's budding atomic weapons efforts.

Now that there's no possibility sanctions will undermine the Iranian regime, the existential threat posed by a nuclear Iran may prod Israel to strike, despite the immense difficulties and the withering response from the U.S., Europe and most of the rest of the world.

Whatever comes to pass will be extremely dangerous.

THE FORBES 2013 ALL-STAR EATERIES IN NEW YORK

*Another dreary year of economic sluggishness, international uncertainty and polarizing political bickering, compounded by the ghastly unraveling of the Affordable Care Act, a.k.a. ObamaCare. Thankfully, 2013 was also another year of epicurean excellence in the Big Apple that makes the bull market look pallid. Our gastronomical gurus—*FORBES *Editor Randall Lane,* FORBES *Editor-at-Large Richard Nalley and media maven Monie Begley, as well as brothers Bob, Kip and Tim—shine a light, as* FORBES *has been doing for more than four decades, on the city's finest fooderies.*

★ ★ ★ ★

Ai Fiori
Aquavit
Atera
Blue Hill
Bouley
Daniel
Del Posto
Eleven Madison Park
The Four Seasons
Gotham Bar and Grill
Gramercy Tavern
Jean-Georges
La Grenouille
Le Bernardin
Le Cirque
Marea
The Modern
Nobu
Per Se
Peter Luger Steak House
Rosanjin
SD26
Tocqueville
'21' Club

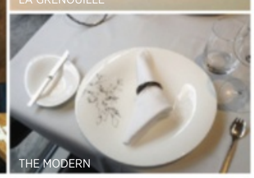
Ai Fiori has truly hit its stride. In its serene modern setting you can actually have a conversation without shouting, and the service is as impeccable as the food. You don't need a secret handshake to access **Atera**, a tiny room tucked like a hipster speakeasy into a nondescript building; you just need the patience to brave the onerous online reservation process and the nonrefundable $500 up front for two. Once inside you're in for a singularly intimate dining delight. **Del Posto**, situated in a vast, crepuscular room, is another of New York's great dining experiences. Celebrating 50 years in the Big Apple's restaurant business, Tony May, in partnership with daughter Marisa, has brought an innovative and elegant level of exquisite Italian cuisine to the city with **SD26,** delivering his magic in a beautiful setting. **Daniel** remains first in its celestial class. The senses are caressed, teased, surprised, dazzled, amused, transported and coddled from start to finale. No question Jean-Georges Vongerichten is also at the top of his game, as **Jean-Georges** delivers on all fronts and then some. **Rosanjin**'s serene ambience is perfectly suited to *kaiseki,* the traditional Japanese tasting menu. Enjoy a succession of sublime fish, vegetable and rice dishes, each distinctively prepared and beautifully presented. The new **Aquavit** is, in a word, wow.


SD26

LE CIRQUE


NOBU


LA GRENOUILLE

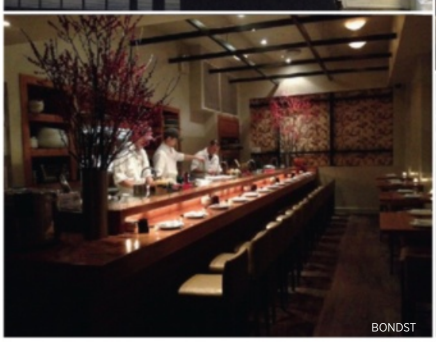

THE MODERN

KRYSTALLYNNE FOR FORBES

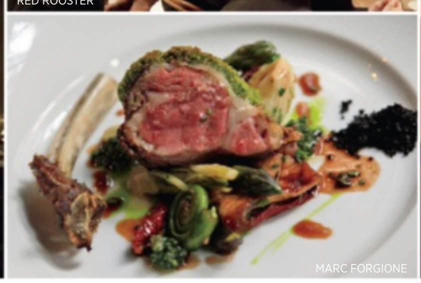
★ ★ ★

- **ABC Kitchen**
- **Aldea**
- **Annisa**
- **Aretsky's Patroon**
- **Asiate**
- **Babbo**
- **Beatrice Inn**
- **Bondst**
- **Brushstroke**
- **Café Boulud**
- **Carbone**
- **Casa Lever**
- **Circo**
- **Il Buco Alimentari & Vineria**
- **JoJo**
- **Junoon**
- **Keens Steakhouse**
- **Maialino**
- **Marc Forgione**
- **The Mark Restaurant**
- **Monkey Bar**
- **Nippon**
- **NoMad Hotel**
- **North End Grill**
- **Park Avenue...**
- **Perla**
- **Perry St**
- **Porter House New York**
- **Prune**
- **Red Rooster Harlem**
- **Riverpark**
- **Saul**
- **Shun Lee Palace**
- **Swifty's**
- **Waverly Inn**

Remodeled on the occasion of its 50th anniversary, **Nippon** continues to set the standard for Japanese cuisine in New York. **ABC Kitchen** will make you orgasmic for organic. Never a beat is missed in the **Beatrice Inn**'s cozy basement space, from the specialty cocktails through to the perfect desserts. The preparation of **NoMad Hotel**'s straightforward fare is innovative, with a sophisticated combination of ingredients. **Bondst**'s sushi is superb. The pristine white-on-white setting of **Perry St** has been restored in every detail following Hurricane Sandy, and the food is every bit as delicious as it was before the trauma of closing. **Annisa**, a charming, understated room on a charming, understated West Village block, quietly turns out the city's best Asian-fusion food. **Saul**, Saul Bolton's Frenchified haute American diamond in the rough, sparkles in the new Brooklyn Museum setting. **Carbone** offers an exuberant, sexy supper-club vibe and turns classic dishes into masterpieces. **Café Boulud**'s menu is fun and deliciously tempting in a setting both glamorous and cozy. **JoJo** is the jewel-box restaurant that started Jean-Georges' empire; the fare, decidedly French, changes with the seasons. **The Mark Restaurant** takes a something-for-everyone approach to its menu with delectable results; desserts are irresistible. The flagship of Mario Batali's empire, **Babbo**, remains a "must visit" on NYC's culinary tour. The classic steak house, **Aretsky's Patroon**, has undergone a stylish reinvention. Another standout in the highly competitive arena of steak houses is **Porter House New York**. At **Casa Lever** all remains *molto bene*.


BONDST


RED ROOSTER


MARC FORGIONE

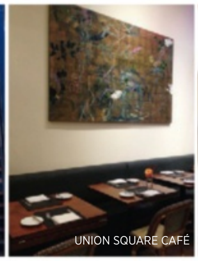

MONKEY BAR

MIDDLE CENTER: AP PHOTO/RICHARD DREW; AP PHOTO/MARY ALTAFFE

THE FORBES 2013 ALL-STAR EATERIES IN NEW YORK

SPECIAL

CRAFTBAR

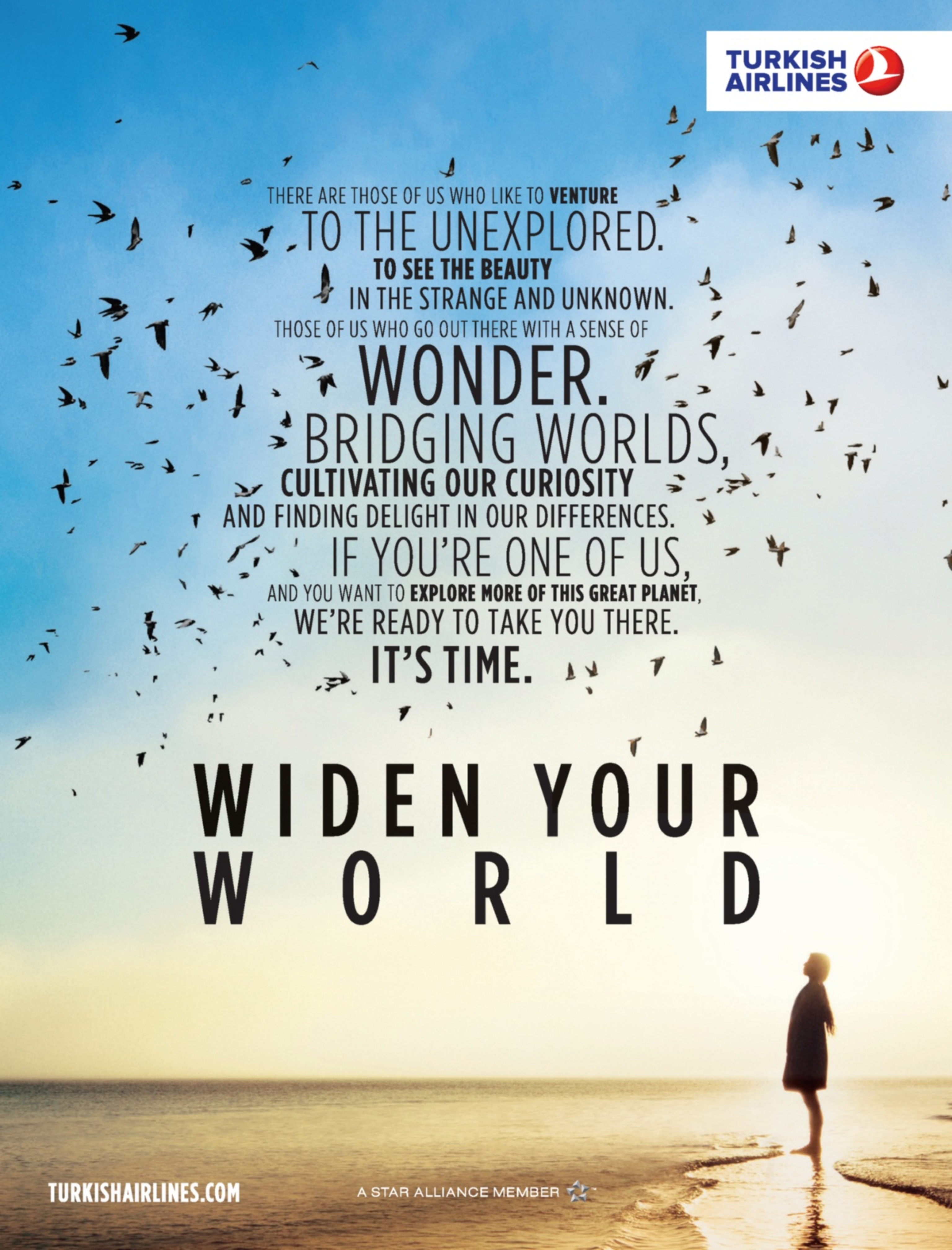


UNION SQUARE CAFÉ

THE LITTLE OWL

ABC Cocina—Mexican with a twist, courtesy of Jean-Georges.
American Girl Cafe—Perfect place for girls and their iconic dolls.
Antonucci Cafe—Warm, boisterous and brimming with pastas and a fine selection of meats.
Aquagrill—Stunning array of fresh fish and seafood, including nearly 30 kinds of oysters.
Artisanal—Outstanding choices of cheeses, and the rest of the menu is mouthwatering, too.
BG / **Freds at Barneys NY** / **Le Train Bleu**—Each a destination unto itself, at Bergdorf Goodman, Barneys NY and Bloomingdale's, respectively.
Billy's Bakery / **Buttercup Bake Shop** / **Dominique Ansel Bakery** / **Crumbs Bake Shop** / **Cupcake Café** / **Magnolia Bakery**—Yum!
Blue Smoke / **Daisy May's BBQ** / **Dinosaur Bar-B-Que** / **Fette Sau** / **Hill Country** / **Mighty Quinn's**—The best in barbecue bring a touch of country to the city.
Boulud Sud—Mediterranean masterpieces.
Buddakan—Memorable Asian menu, lively scene.
Center•Bar—Seriously fun cocktailing, with top-shelf booze flowing into delicious concoctions.
Craftbar—Serving fun, fusion/confusion fare, such as an open-faced cheese-and-white-anchovy sandwich.
The Dutch—Excellent American-cuisine treat.
E.A.T.—Scrumptious sandwiches ensure you do it well.
El Toro Blanco—Small yet innovative menu. The prix fixe lunch, at $18, is a steal.
Grand Central Oyster Bar & Restaurant—Superb seafood, superb setting.
The Grocery—Original renderings of American food.
Ilili—Luscious Lebanese cuisine in a hip scene.
Jones Wood Foundry—Wonderful artery-clogging meals and out-of-this-world sticky-toffee pudding.
Kin Shop—You'll get a high from this version of Thai.
Kings' Carriage House—Antiques-filled duplex with the feel of an English country home and a menu with an emphasis on American-style preparation.
Kurumazushi—Some of the best (and priciest) sushi.
The Leopard at des Artistes—Solid Italian dishes offered within walls adorned with murals of the fairer sex.
the little owl—Well worth the effort to land a reservation.
Locanda Verde—A brilliant French touch layered atop home-style Italian in TriBeCa.
Lure Fishbar—Hooks you every time.
Má Pêche—Exceptionally inventive Asian fusion.
Mas (farmhouse) and **(la grillade)**—Euro-style, high-rustic chic with a commitment to fine, New American food from local purveyors.
Michael's—Meals to make media moguls forget the Web.
Minetta Tavern—Authentic, classic American tavern setting, serving evocative French bistro food.
Osteria Morini—Northern Italian chain with spot-on classic pasta preparations, custom cuts of pork and steak and an expertly chosen wine list.
Periyali—Great Greek gastronomical experience.
Petrossian—Fine French cuisine, but go for the caviar.
The Todd English Food Hall—Cornucopia of eating temptations at the Plaza Hotel.
Roberta's—Pizza and pasta heaven.
Rosemary's—Airy garden concept still makes this special, with the food as fresh and tasty as ever.
The Standard Grill—Above-standard fare and scene.
Tamarind—Outstanding Indian offerings.
Tribeca Grill—Superb American menu, notable wine list.
Union Square Café—Excellent dining in the company of a smart crowd from the media and financial communities.

RIGHT: AP PHOTO/LARRY CROWE


TURKISH AIRLINES
THERE ARE THOSE OF US WHO LIKE TO VENTURE
TO THE UNEXPLORED.
TO SEE THE BEAUTY
IN THE STRANGE AND UNKNOWN.
THOSE OF US WHO GO OUT THERE WITH A SENSE OF
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CULTIVATING OUR CURIOSITY
AND FINDING DELIGHT IN OUR DIFFERENCES.
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SEAT OF POWER

ROOM WITH A VIEW

PHOTOGRAPH BY EVAN KAFKA FOR FORBES

LEON COOPERMAN, boss of $9.8 billion Omega Advisors, has been obsessed with markets ever since he quit dental school and a quality-control job at Xerox to get his M.B.A. from Columbia in 1967. The result: reliably impressive returns, including 31% this year to date. True to his value bent and disdain for showiness, his function-over-form office displays a hodgepodge of memorabilia from a long career on Wall Street.

He displays a replica of a type of **PRIVATE JET** he leases for about 25 hours each year. Since he could easily buy one, the plane reflects both wealth and thriftiness at once.

The **SLIDING GLASS WINDOW** behind his desk is left open during the trading day so he can call out directives to his secretary Mickey *(center)* and his traders.

A sculpture by **ALEXANDER CALDER**. Still, says Cooperman, “I’m not a collector of art but rather of stock certificates that hopefully rise in value.”

Omega's boss has suffered from chronic back pain since 1978. He sits comfortably, though, in a **HERMAN MILLER CHAIR** with a classic design by Charles and Ray Eames.

A Goldman Sachs partner gave him a **BULLWHIP** after he led a grueling 30-day road show to raise $500 million for Goldman's first mutual fund in 1990.

A COURTROOM SKETCH shows him testifying in Tyco International's 2004 trial. He said Dennis Kozlowski had lied to him about a payment to a company director.

WARREN BUFFETT sent him a note praising his contrarian analysis of Teledyne's stock in the 1980s. He has signed Buffett's Giving Pledge.

GOLDMAN SACHS' BUSINESS PRINCIPLES from the 1970s. Cooperman spent 25 years there and built its asset management business.

THE REAL ESTATE INDUSTRY REMAINS CAUTIOUS, AWARE OF RISKS

Real estate executives turned out to be the most strategically cautious of four industries surveyed by Forbes Insights/Zurich in North America—and also the least optimistic about their growth prospects over the next three years. The study included more than 400 executives in banking and financial services, construction, healthcare and real estate. Their companies' annual revenues ranged from $25 million to $750 million.

Edward J. Fritsch, president and chief executive of Highwoods Properties, a real estate investment trust in Raleigh, N.C., includes himself among the cautious. For one thing, "this is such a cyclical economy," he says. "If you get too aggressive in the business, it's only a matter of time before you're out of business."

The survey showed that, of the four industries, real estate executives are also the least hopeful that they'll be hiring new workers over the same period. Only 40% predicted headcount growth versus an average of more than 50% for the other three industries. Fritsch, who was interviewed independently of the survey, says the economic downturn has enabled his company, and the industry in general, "to do the paring of mediocre and underperformers" so that productivity is at an all-time high. But until his clients start hiring again, he can't either. "I think employment is the biggest risk for us," says Fritsch, whose company owns nearly 350 office and commercial properties. "The gist of it is that if you're a customer of ours and you're not hiring more people, you don't need more of our product. If you lease 20,000 square feet and you're not hiring more people, then it's hard for me to convince you that you now need 30,000 square feet."

Fritsch dismissed climate change and extreme weather as significant threats to his industry, mainly because of the advance of technology in building materials. The survey showed a similar lack of worry among respondents. Dan Kleiman, head of Real Estate at Zurich in North America, notes that real estate investors have developed a more detailed appreciation of risk. But still, he says, "it has to be juxtaposed against a new reality of severe weather patterns." He cites California's recent hail and thunderstorms as examples, so aberrant that the damage they caused fell outside any predictable or measurable patterns. "Companies can prepare for severe weather, but the degree of severity can still surprise us."

Why real estate executives may be nervous…

Does your company align growth strategy with risk management?
No 29%

Does it know how to mitigate risk?
No 29%

Does it understand the sources of risk?
No 25%

Are *you* aware of the risks in your company's growth strategy?
Yes 60%

… and what they'll do about it (or not)

How would you manage risk differently over the next three years?

No differently 47%

Don't know 31%

Differently 22%

*The complete study is available at www.forbes.com/forbesinsights/Zurich_Risk

ZURICH®

820%

Change in ***Indonesia's GDP*** *since 1998, the year Suharto, the country's longtime dictator, was overthrown.*

SCORECARD

WINNERS

Jeff Bezos

+$550 MILLION

NET WORTH: $34.3 BILLION

Amazon's stock continues its spectacular run as the company premieres *Alpha House*, its first original TV series for subscribers to its Prime service.

David Filo

+$200 MILLION

NET WORTH: $2.8 BILLION

Yahoo's revenue remains stagnant, but CEO Marissa Mayer's stock buyback program boosts its share price, increasing its cofounder's wealth.

Robert Pera

+170 MILLION

NET WORTH: $2.6 BILLION

Ubiquiti Networks, which he founded, enjoys quarterly sales growth of 88% for its bread-and-butter airMAX high-speed wireless technology.

LOSERS

Mark Zuckerberg

–$1.3 BILLION

NET WORTH: $21.6 BILLION

Facebook's stock continues to sag as teens go elsewhere, while Snapchat reportedly turns down a $3 billion buyout offer from the company.

Elon Musk

–$1.1 BILLION

NET WORTH: $5.8 BILLION

Musk blames media hype when reports of three battery fires in Tesla Model S cars send his electric-auto company's stock down nearly 30%.

Leon Black

–$470 MILLION

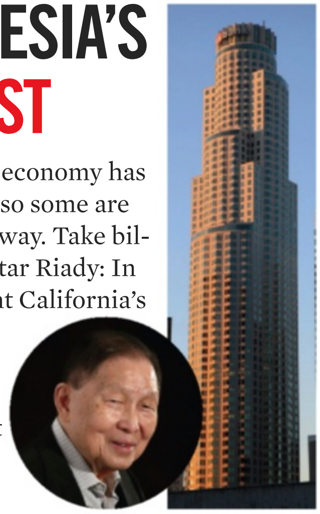
NET WORTH: $5.6 BILLION

His private equity firm, Apollo Global Management, reports a 39% rise in quarterly profits, but its shares fall anyway after a yearlong climb.

FIGURES REFLECT THE CHANGE IN VALUE OF PUBLICLY TRADED HOLDINGS FROM NOV. 6 TO NOV. 20.
SOURCES: INTERACTIVE DATA VIA FACTSET RESEARCH SYSTEMS; FORBES.

BILLIONAIRES

INDONESIA'S RICHEST



The country's economy has slowed down, so some are investing far away. Take billionaire Mochtar Riady: In June he bought California's tallest building, L.A.'s U.S. Bank Tower. For more, visit forbes.com/Indonesia.

1. R. BUDI HARTONO AND MICHAEL HARTONO
$15 BILLION ◀▶
The brothers' biggest holding is in Bank Central Asia, the country's largest private bank.

2. EKA TJIPTA WIDJAJA
$7 BILLION ▼
The family's Asia Pulp & Paper, long criticized for deforestation, announced this year it will stop cutting natural forests.

3. ANTHONI SALIM
$6.3 BILLION ▲
His Salim Group owns the world's largest noodlemaker plus stakes in telecom and retail.

4. SUSILO WONOWIDJOJO
$5.3 BILLION ▼
Shares of his clove cigarette maker, Gudang Garam, dropped after a bad harvest drove up costs.

5. CHAIRUL TANJUNG
$4 BILLION ▲
His Trans Corp operates two of the nation's top five TV stations and owns the country's Carrefour stores.

6. SRI PRAKASH LOHIA
$3.7 BILLION ▲
The brother-in-law of steel billionaire Lakshmi Mittal owns a polyester maker and a Nigerian petrochemicals plant.

7. BOENJAMIN SETIAWAN
$3 BILLION ▲
"Dr. Boen," as he's called, runs the nation's biggest pharma outfit and has a chain of hospitals.

8. PETER SONDAKH
$2.7 BILLION ▲
He owns everything from the St. Regis Bali hotel to a gold mine to a stake in a taxi company.

9. MOCHTAR RIADY
$2.5 BILLION ▲
His Lippo Group has interests in property, retail, health care and education.

10. SUKANTO TANOTO
$2.3 BILLION ▼
Margins have been squeezed at April, his paper company; he also owns pulpmaker Sateri.

▲UP ◀▶UNCHANGED ▼ DOWN ★NEW

SCORECARD BY BRIAN SOLOMON
TOP: DIDIER MARTI/GETTY IMAGES; TOMOHIRO OHSUMI/BLOOMBERG; RICHARD VOGEL/AP

$180 MILLION

*Cost to construct Kroenke's **Pepsi Center** Denver sports complex, which opened in 1999—the entire amount funded privately.*

HOME EQUITY

STAN KROENKE'S SPREADS

Stan Kroenke made his fortune in real estate developing warehouses and shopping centers, many of them used by Wal-Mart, which was founded by his wife Ann Walton Kroenke's uncle. Since then he's amassed a sports empire that includes the NFL's St. Louis Rams and Premier League soccer club Arsenal, and his Kroenke Group oversees ventures in real estate development and self-storage. Then there's his steadfast land grab: Kroenke is now America's eighth-largest private landowner, according to the latest Land Report 100 ranking. At 66 and worth an estimated $5.3 billion, he has these seven homes plus 1.5 million acres of ranchland in Montana, Wyoming and British Columbia, and several California vineyards.

Main Digs
WEST NIFONG BOULEVARD COLUMBIA, MO.
VALUATION: $2.5 MILLION

His 12,000-square-foot primary residence, built in 1988, sits on nearly 84 acres and has five bedrooms, six full baths and a swimming pool with a colonnaded pavilion alongside.

California Beach House
PACIFIC COAST HIGHWAY, MALIBU, CALIF.
VALUATION: $8.9 MILLION

His 8,000-square-foot Tuscan villa on 2.5 oceanfront acres belonged to Dodi Fayed, Princess Diana's companion until their fatal car crash in 1997. It has four bedrooms, a guest house, a pool and a tennis court.

Red Mountain Retreat
RIDGE ROAD, ASPEN, COLO.
PURCHASE PRICE: $20.75 MILLION

Aspen's most expensive home sale of 2011, this estate includes a 10,500-square-foot contemporary main house with a theater, a 1,600-bottle wine cellar and a resistance pool.

Aspen Mountain Town House
SOUTH MILL STREET, ASPEN, COLO.
VALUATION: $6.2 MILLION

Kroenke purchased this 7,150-square-foot four-bedroom town home in 2004 for $5.9 million. It sits on a sliver of land in the high-end Top of Mill development at the foot of Aspen Mountain.

Steamboat Springs Duplex
ROBERT E. LEE LANE, STEAMBOAT SPRINGS, COLO.
VALUATION: $872,000

He owns commercial land and buildings throughout the ski town, including this multifamily home built in 1982 and tucked into less than half an acre.

Montana Farm
BROKEN O RANCH, AUGUSTA, MONT.
LIST PRICE: $132.5 MILLION

State laws keep the price of this November 2012 purchase undisclosed. It's a 124,000-acre operational ranch that spans three counties and has a 10,000-square-foot main house with an indoor pool, stables, more than 4,000 head of cattle and an expanse of open cropland.

Penthouse Crash Pad
PEPSI CENTER, DENVER, COLO.
VALUATION: NOT AVAILABLE

He reportedly bunks occasionally at an 11,500-square-foot duplex penthouse atop his Pepsi Center complex, where his NBA team, the Denver Nuggets, and his NHL team, the Colorado Avalanche, both play.

BY MORGAN BRENNAN

LEFT: PICTOMETRY; TOP: MICHAEL MARTIN / GETTY IMAGES

$328 MILLION

***Total U.S. sales of e-books**, the most lucrative book format, in the first quarter of 2013. (Paperbacks were second at $306.6 million.)*

PHILANTHROPY

CHARITABLE BANG FOR THE BUCK

The country's largest charitable institutions bring in a lot of gifts—and their top executives bring in pretty good salaries. But the ratio of those two numbers varies greatly: The Salvation Army collects nearly three times as much for every dollar paid its boss as does the United Way. Here are the country's 10 biggest charities and how their takes compare with their leaders'. For the 50 biggest, with more data, go to www.forbes.com/charities.

CHARITY	DONATIONS ($MIL)	BOSS	COMPENSATION	DOLLARS DONATED PER DOLLAR OF COMPENSATION
1. UNITED WAY	$3,926	BRIAN GALLAGHER	$1.5 MIL[1]	$2,607
2. SALVATION ARMY	1,885	WILLIAM A. ROBERTS	250,000	7,544
3. TASK FORCE FOR GLOBAL HEALTH	1,660	MARK ROSENBERG	320,000	5,189
4. FEEDING AMERICA	1,511	BOB AIKEN	431,000	3,506
5. CATHOLIC CHARITIES USA	1,447	REV. LARRY SNYDER	354,000	4,091
6. GOODWILL INDUSTRIES INTERNATIONAL	949	JIM GIBBONS	725,000	1,308
7. FOOD FOR THE POOR	891	ROBIN G. MAHFOOD	411,000	2,166
8. AMERICAN CANCER SOCIETY	889	JOHN R. SEFFRIN	832,000	1,068
9. YMCA	827	NEIL NICOLL	501,000	1,650
10. WORLD VISION	826	RICHARD E. STEARNS	457,000	1,809

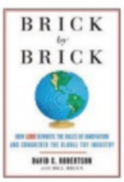
[1]INCLUDES SALARY, BENEFITS, ONE-TIME PAYMENTS AND DEFERRED COMPENSATION IN LATEST REPORTED FISCAL PERIOD. COMPENSATION MAY BE FOR PREVIOUS TOP PERSON.
SOURCE: IRS FORM 990 OR STATEMENT OF INDIVIDUAL CHARITY.

MUST-READS

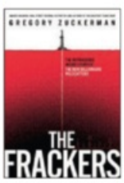
THE BEST BOOKS OF 2013

FORBES' staff picks the year's most entertaining and illuminating nonfiction reads. For more on each book see Forbes.com/books.

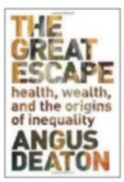
THE BILLIONAIRE AND THE MECHANIC How Larry Ellison and a Car Mechanic Teamed Up to Win Sailing's Greatest Race by Julian Guthrie



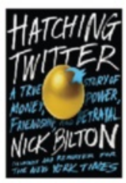
BRICK BY BRICK How LEGO Rewrote the Rules of Innovation and Conquered the Global Toy Industry by David C. Robertson



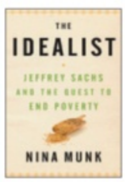
THE FRACKERS The Outrageous Inside Story of the New Billionaire Wildcatters by Gregory Zuckerman



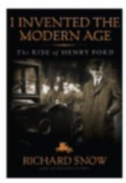
THE GREAT ESCAPE Health, Wealth, and the Origins of Inequality by Angus Deaton



HATCHING TWITTER A True Story of Money, Power, Friendship, and Betrayal by Nick Bilton



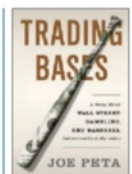
THE IDEALIST Jeffrey Sachs and the Quest to End Poverty by Nina Munk



I INVENTED THE MODERN AGE The Rise of Henry Ford by Richard Snow

ONE CLICK Jeff Bezos and the Rise of Amazon.com by Richard L. Brandt

ONE SUMMER America, 1927 by Bill Bryson



TRADING BASES A Story About Wall Street, Gambling, and Baseball (Not Necessarily in That Order) by Joe Peta

CHARITIES BY WILLIAM P. BARRETT

PHILIP LEWIS / BLOOMBERG; BILL O'LEARY / THE WASHINGTON POST / GETTY IMAGES; LARRY BUSACCA / GETTY IMAGES; JAMES GIBBONS; JOHN FROSCHAUER / AP; MARK LENNIHAN / AP; LARRY FRENCH / AP; PAUL MORSE / AP; TOP: MARK LENNIHAN / AP

THE PENINSULA BEVERLY HILLS

THE UPPER HOUSE, HONG KONG

THE NAM HAI, VIETNAM

THE SOUND OF SUCCESS

Traveling well is as much about the journey as it is about arriving at the destination. These Forbes Travel Guide Tastemakers know how to travel in style. Here are their picks for where to stay, what to pack, what to bring home and what to listen to when on the road.

Presented by

Forbes TRAVEL GUIDE beats by dr. dre

GRAHAM ELLIOT
CHEF, RESTAURATEUR
Graham Elliot | Chicago

Favorite place to travel: Los Angeles

Check into: The Peninsula Beverly Hills

I always travel with: My iPad mini—the ability to have my music, movies, games, documents, photos and apps all on one tiny device is awesome.

What to bring home: I enjoy grabbing souvenirs like silly key chains or T-shirts to bring back for friends and family.

Travel advice: Pack light and bring just the essentials. You can always grab stuff when you arrive.

My travel playlist: Sunny Day Real Estate, The Get Up Kids, Jawbreaker, Texas is the Reason, The Smiths, The Promise Ring, Girl Talk

LOS ANGELES

TARA BERNERD
INTERIOR DESIGNER
Tara Bernerd & Partners | London

Favorite place to travel: Hong Kong

Check into: The Upper House

I always travel with: My iPad, a take-away Itsu meal and a copy of *Monocle*.

What to bring home: Whatever I can fit in my suitcase—usually a cool cuff bracelet.

Travel advice: Always bring your passport, a bottle of water and a pair of Ray-Bans, and have a great driver in every city.

My travel playlist: The Rolling Stones, Daft Punk, Bob Dylan

HONG KONG

Photo credit: Hotels: The Peninsula Beverly Hills©The Peninsula Beverly Hills, The Upper House, Hong Kong©TheUpperHouse; The Nam Hai, Vietnam©GHM Hotels | Photo credit: Tastemakers: Graham Elliot©Graham Elliot, Tara Bernerd©Alex Lake, Spike Mendelson©Spike Mendelson, Alpana Singh©Anthony Tahlier

HOUSEBOATS, AMSTERDAM

SPIKE MENDELSOHN

CHEF, RESTAURATEUR

Béarnaise | Washington, D.C.

Favorite place to travel: Vietnam

Check into: The Nam Hai

I always travel with: A Canadian flag on my backpack.

What to bring home: Spices—I try to bring the flavors home with me.

Travel advice: Always hang with the locals to find the best spots.

My travel playlist: J. Roddy Walston and the Business, Bob Marley

VIETNAM

ALPANA SINGH

SOMMELIER, RESTAURATEUR

The Boarding House | Chicago

Favorite place to travel: Amsterdam

Check into: A houseboat rental

I always travel with: My iPhone—you can instant message, listen to music, search restaurants, share your trip photos on social media, access maps and directions, and so much more.

What to bring home: My husband and I bring back holiday ornaments. Each December, it's fun to revisit mementos from our past travels.

Travel advice: Pack light and try to limit your luggage to a carry-on.

My travel playlist: Empire of the Sun, Passion Pit, MGMT, Foster the People, Florence and the Machine

AMSTERDAM

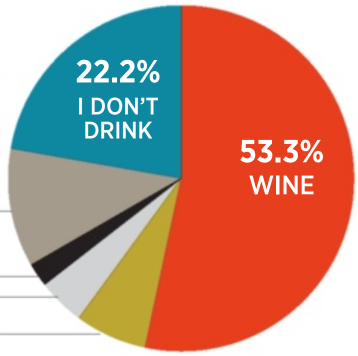
$1,180

*Cost of the priciest **Kate Moss-designed Longchamp handbag**, an airline-friendly travel satchel that comes in three colors.*

ASK 50 BILLIONAIRES

THE HOLIDAY SPIRIT

What is your favorite drink?



RESPONSES TO AN ANONYMOUS POLL OF 50 MEMBERS OF THE FORBES WORLD'S BILLIONAIRES LIST.

UP-AND-COMERS

APPETITE FOR INNOVATION

These entrepreneurs are profiting by bringing creative eating experiences to our homes, schools and even helipads.

Brian Bordainick DINNER LAB

Bordainick, 28, launched his dinner club last year as a way to connect undiscovered chefs with adventurous diners. He now works with 80 chefs in cities from Los Angeles to New York, presenting meals in exotic locations such as a motorcycle dealership and a helipad. He charges $175 a year for memberships and $40 to $100 or more per meal. His 2013 revenues: $2.4 million.

Michael and Nicky Bronner UNREAL

After his father, Michael, 54, confiscated his Halloween loot three years ago, Nicky Bronner, now 16, set out to learn what makes candy so unhealthy. What followed was an odyssey that led the Bronners to Adam Melonas, an Australian chef who agreed to try to replicate beloved American candies without the artificial ingredients. Their team has raised a sweet $14 million in private equity funding.

Kirsten Saenz Tobey and Kristin Groos Richmond REVOLUTION FOODS

The two mothers, 35 and 38, founded their company to make nutritious, affordable meals available to schoolchildren. Now their meal kits are in stores such as Whole Foods and Safeway, and they serve a million meals a week to K–12 students. They've raised millions in funding and count Judy Palfrey, director of the White House's Let's Move initiative, as a supporter.

NEW BILLIONAIRES

GEOSOUTHERN ENERGY'S GEORGE H. BISHOP

The oil tycoon long stayed below the radar—until late November, when Devon Energy agreed to buy the Texas oilfields GeoSouthern operates for $6 billion. Of that, $1.5 billion will likely go to Blackstone, which has financed drilling, and the rest straight to Bishop, 77, who founded GeoSouthern in 1981 and is believed to own it outright. If estimates of the company's total oil output are accurate, the Devon deal claimed less than half its assets, and Bishop's fortune could be as much as $4 billion even after debt payments and taxes.

GALERIES LAFAYETTE'S GINETTE MOULIN

The 86-year-old grande dame of French retail and her family are worth $3 billion thanks to their ownership of Groupe Galeries Lafayette, the upscale department store chain founded by her grandfather in 1893.

ESTEE LAUDER'S JANE LAUDER

The granddaughter of cosmetics mogul Estée Lauder and daughter of billionaire Ron Lauder joins the ranks of billionaires after a massive stock transfer. She, 40, and her sister, Aerin, 43, both sit on the board of Estée Lauder.

LONGCHAMP'S PHILIPPE CASSEGRAIN

The French handbag company, founded in 1948, has had sales growth of nearly 75% since 2009, hitting $600 million last year. Philippe, the founder's son, runs Longchamp; he and his three children own it all.

UP-AND-COMERS BY KATHRYN DILL

BRONNERS: JASON GROW; RIGHT FROM BOTTOM: BERTRAND RINDOFF PETROFF / GETTY IMAGES; EVAN AGOSTINI / AP; DIMITRIOS KAMBOURIS / GETTY IMAGES; GLENN REA / THE CUERO RECORD


We create chemistry that makes "wow" love "why"
Do you know kids' most popular reaction to chemistry? It's "Wow!" One simple word with great scientific experience behind it. We've heard it many times, in more than 30 countries, at BASF Kids' Lab. For one day, kids become scientists. They experiment in a playful manner and learn why and how the world's marvels work. Because we believe that one day these kids will wow us in return.
When science can be seen as a foundation of wonder, it's because at BASF, we create chemistry.
www.wecreatechemistry.com
BASF
The Chemical Company

$1.25 BILLION

***Amount Paul Tudor Jones' Robin Hood Foundation** has donated to combat poverty in New York City since its 1988 founding.*

ACTIVE CONVERSATION

EDUCATING THE EDUCATORS

FORBES, DECEMBER 2, 2013

22,111 VIEWS ON FORBES.COM

After a quarter-century fighting poverty through his Robin Hood Foundation, hedge fund billionaire Paul Tudor Jones decided it all wasn't nearly enough; now he must do no less than transform American public education. Monte Burke's profile quotes Jones comparing his mission to John F. Kennedy's drive to put a man on the moon: "We are losing the space race. This time the space is between our kids' ears." Commenter Gurdeep Singh Bariana was mightily impressed: **"This is a great effort, which will enhance education for Americans"** and **"change the outlook of Americans in the future."** But others disagreed. Guybo211 complained, **"Here we go again, putting the cart before the horse, improving education as a cure for poverty. ... Leveling the playing field of educational opportunity requires first that we make a very real attempt to level our very uneven society."** Daryl Fletcher added, **"Let us begin with education's foundation, a mother and a father. Without money or wealth, a parent can influence an education more than any other person."** Goatrope asked, **"How successful has the Robin Hood Foundation been at combating poverty in New York? After 25 years ... I still have not seen many meaningful metrics demonstrating that the charity has been ... successful." "Innovation only comes from the results-oriented free market, not the public sphere,"** insisted Wendy, to which another commenter responded, **"Oh, really! The results-oriented 'free market' produced so much innovation that it collapsed in 1929 and came near to it several times thereafter. ... I for one would never trust the market with the education of my children."** And Lou concluded, **"Better idea: Get noneducators out of the education business. ... Build policies only with massive educator input."**

E-SPORTS

FORBES, DECEMBER 2, 2013

40,860 VIEWS ON FORBES.COM

David M. Ewalt described how a website called Twitch is turning video-gaming into a big-money spectator sport. Commenter Clayton Erickson found it hard to believe: **"E-sports will always remain a niche market ... because as one game falls from the throne, there will be hundreds vying for its place."** Fellow commenter Jacob countered, **"That's why Twitch is a platform for all games, not a marketing channel for one game,"** and added, **"Hulu pays for content using an antiquated model, where Twitch facilitates user-generated content and treats creators like partners."** EngSci ETC praised **"the charity side of Twitch, like the biannual ... marathons that have raised in the range of a million dollars over the last few years for influential charities like Doctors Without Borders."**

BILL GATES AND BONO, PHILANTHROPY DUO

@AFRIHOST
Bill Gates and Bono may be an unlikely dynamic duo, but two of the world's most influential people can do a lot of good.

@GOGLOBALFOOD
Interesting that Bono admits capitalism is the basis to defeat poverty ... not government handouts.

@DENNISTONDK
Entrepreneurial capitalism causes entrepreneurial philanthropy. Nice!

LIFTING UP LIBERIA

@MSJENNAHSCOTT
Yep! That's our amazing president [Liberia's Ellen Johnson Sirleaf] encouraging billionaires to support @LIBPhilanthropy.

@NICK_ZEN
How about helping the 30 million poor people here. Or is it more fun to fly around the world?

PANDORA'S BATTLE OVER ROYALTIES

@KJPIXELATED
I'm loving iTunes Radio on my iPhone, guiltily, as Pandora led me to this streaming music experience.

FAVORITE TWEET

@williecolon (salsa star): Every morning, I get up and look through the FORBES list of the richest people in America. If I'm not there, I go to work.

TOP: AMANDA GORDON / BLOOMBERG

SIHANOUK
A LEAD PLAYER IN MANY ROLES

NORODOM SIHANOUK, born Oct. 31, 1922, was a charismatic figure in Cambodian politics. In many ways he was larger than life: He took six wives and concubines and fathered at least 14 children in 11 years; he was fascinated with films and became a film director, producer, cameraman and actor; and he played the saxophone well. The French plucked him from down the line of succession and put him on Cambodia's throne in 1941, mistakenly thinking he would be easy to control. But the young king agitated for Cambodia's independence, eventually gaining the support of the U.S., Canada and Japan, among others. France finally relented, granting Cambodia independence on Nov. 9, 1953.

In 1955 Sihanouk abdicated in favor of his father so he could enter politics and become prime minister. When his father died in 1960, Sihanouk again became head of state, with the title of prince.

I met Norodom Sihanouk when I visited Phnom Penh in 1967, and later I twice visited Angkor Wat in Siem Reap, where the ruins bear witness to a once great civilization. Both times he generously requested that I use his residence at Siem Reap as my base, with all the residence's services at my disposal.

In 1965 Sihanouk made a pact with China and North Vietnam that allowed North Vietnam to establish bases in Cambodia and China to send military supplies to Vietnam through Cambodia's ports. This, combined with the severe political repression unleashed in 1966–67, set the stage for civil war. In 1970, when Sihanouk was on a visit to Moscow, General

Lon Nol staged a successful coup. Sihanouk sought refuge in China and set up a government-in-exile. Lon Nol, however, was unable to stop the North Vietnamese from using Cambodian territory to infiltrate and attack South Vietnam. This caused U.S. forces, in defense of South Vietnam, to regularly bomb the border.

ENEMIES WITHIN & WITHOUT

In 1975 the Khmer Rouge, whose goal was to demolish Cambodian society and rebuild it from scratch, overthrew Lon Nol. The Khmer Rouge leader, Pol Pot, in his ideological madness, destroyed the Cambodian intelligentsia and killed more than 1 million people in what came to be known as the killing fields. Ieng Sary, Khmer Rouge foreign minister of Democratic Kampuchea, came to Singapore and explained that they were going to build a new society, one not corrupted or influenced by French colonialism.

Once the Khmer Rouge took over, Prince Sihanouk returned to Cambodia as the symbolic head of state. But it wasn't long before he was placed under house arrest. During this time many members of the Sihanouk family were killed or deported.

Following the Vietnam War, North Vietnam signed a mutual defense pact with the Soviet Union, hoping it would be protected when it embarked on the annexation of Cambodia and Laos. Deng Xiaoping, China's supreme leader, wasn't about to let this happen. He visited Bangkok, Kuala Lumpur and Singapore and in November 1978 told me to expect a response from China if Vietnam embarked on such an invasion. He said China didn't want a Soviet "Cuba" in Southeast Asia. When the Vietnamese invaded Cambodia that December and seized control of Phnom Penh in early 1979, China crushed and punished the provinces of North Vietnam just across its border and put paid to their wider ambitions.

Sihanouk was sent by the Khmer Rouge to speak at the UN in its defense and against the Vietnamese invasion. But while in New York he planned his escape, fleeing after his UN speech and seeking refuge in China and North Korea.

In 1993, following UN-sponsored elections, Cambodia's National Assembly voted to restore the monarchy, and Sihanouk was reinstated as king. But in October 2004, citing poor health, Sihanouk abdicated. The government proclaimed him His Majesty the King-Father of Cambodia. He lived the rest of his life in Pyongyang and Beijing, returning to Phnom Penh to celebrate his 89th birthday with a last public appearance in October 2011.

Sihanouk died 16 days shy of 90, having spent most of his life in service to his country and people. F

LEE KUAN YEW, FORMER PRIME MINISTER OF SINGAPORE; DAVID MALPASS, GLOBAL ECONOMIST, PRESIDENT OF ENCIMA GLOBAL LLC; AMITY SHLAES, DIRECTOR, THE 4% GROWTH PROJECT; AND PAUL JOHNSON, EMINENT BRITISH HISTORIAN AND AUTHOR, ROTATE IN WRITING THIS COLUMN. TO SEE PAST CURRENT EVENTS COLUMNS, VISIT OUR WEBSITE AT WWW.FORBES.COM/CURRENTEVENTS.

SMARTS IN BUSINESS IS NOT ABOUT IQ

WHEN ACADEMICS use the word "smarts," they usually mean general intelligence, or "*g*" for short. This is the ability to learn, think and apply. For decades scientists have sought to measure *g* by using IQ and similar cognitive tests.

But smarts is something different in the real world. It isn't defined by 800 math SATs. It's more about the importance of hard work, perseverance and resilience. Call it grit. Call it courage. Call it tenacity. Because these are old-fashioned concepts, they're easy to miss.

In business the questions are: Who can get things done? Who can achieve, endure and succeed? The oil wildcatter in North Dakota or the top insurance salesman in Kansas City may not be a mathematical genius like Google's Sergey Brin, but they're both wily, clever and capable. They'll survive good times and bad. They'll adapt to changing markets and win more than they lose.

While discussing smarts, CEO Tom Georgens of NetApp, the $6.3 billion data storage company, made a very interesting observation: "I know this irritates a lot of people, but once someone is at a certain point in his or her career—and it's not that far out, maybe five years—all the grades and academic credentials in the world don't mean anything anymore. It's all about accomplishment from that point on." About his own hires, Georgens offered, "I don't even know where some members of my staff went to college or what they studied." To him and other CEOs, at a certain point it just doesn't matter anymore.

Taking the idea in a more entrepreneurial direction, Greg Becker, CEO of Silicon Valley Bank, told me,

"Some of the better venture capital firms that I know want people who are scrappy, who have been through trials and tribulations. These people will figure out a way to make it work, no matter what."

Maynard Webb, chairman of Yahoo's board of directors and a board member of Salesforce.com, added, "What I'm looking for is talent. But talent isn't just intellect. Talent is also what you've done. If you're an entrepreneur trying to break through, it's hard work. You have to be tough, you have to be willing to take lots of body blows. So I'm looking for that grit factor."

This should be good news for most of us. We're not limited or defined by the IQ we've inherited. Much of what makes us real-world smart comes from what we've learned—usually the hard way. Academics will say those things don't technically define smarts. Fair enough. Effort and tenacity don't directly align with the scientific definition of intelligence. But before dismissing this column's definition of smarts, let me show you how grit leads directly to becoming smarter. This happens because grit results in an increased ability to learn more and adapt faster.

GRIT CREATES SMARTS

From the prenatal period to the end of our lives what shapes the neural circuits underlying our behavior is experience. This can include such uncontrollable influences as adversity, as well as such intentional influences as learning and training. The human brain displays amazing plasticity—the ability to modify neural connectivity and function—even into our 70s.

The smartest people in business are not those who have the highest *g*; they are those who regularly put themselves in situations requiring grit. These acts of courage accelerate learning through adaptation.

For example, salespeople who make more calls will almost always outperform salespeople who make fewer calls. That's no surprise, but here's the key point: This doesn't happen just because the act of making more calls mathematically raises the chances of success. There's much more to it. By facing up to the task of making a call, frequent callers put themselves on a faster learning curve. They discover more rapidly what works and what doesn't. They're quicker to learn techniques that overcome rejection. Thus, their success yield will improve—i.e., double the calls, triple the sales. The act of making lots of calls also helps a person learn self-discipline and understand the rewards of delayed gratification.

In the real world it's grit that makes us smart.

RICH KARLGAARD IS THE PUBLISHER AT FORBES. FOR HIS PAST COLUMNS AND BLOGS VISIT OUR WEBSITE AT WWW.FORBES.COM/KARLGAARD.

American Red Cross:
A Season of Giving Gets New Meaning

By Susan Burnell

Stories about disasters and emergencies move people to give to the American Red Cross. A family is housed after a fire. Survivors get help following a hurricane or tornado. Patients receive lifesaving blood. These are just some of the services that the Red Cross offers. The Red Cross is working to show donors that their donations have far greater impact than they may realize.

"Our donors need to hear how their support makes a difference in people's lives after disasters and in many other ways," says Neal Litvack, Chief Development Officer of the Red Cross. "For example, one donation of blood can help save up to three lives. The Red Cross collects and distributes about 40 percent of the nation's blood. Donations help us train people in CPR, first aid, babysitting and aquatics safety, and lives are saved as a result of that training."

The Red Cross launched its campaign, "Give Something That Means Something," in 2011. Last year, monetary donations to the Red Cross during the holiday season were up by about 33 percent. "We believe that we've tapped into something very meaningful," Litvack says. "Particularly during the holiday season, people feel a need to think differently about how they're giving gifts."

This year, the organization is expanding its holiday card program for military members and their families. "Receiving a handwritten note on a card really means something to service members who are unable to be with their families during the holidays. Last year, we collected 1.8 million holiday cards for U.S. troops and their families," says Litvack. "This year, we're incorporating social media. People can make a video greeting card, then post it to Instagram or Vine with the hashtag #HolidayMail. Those greetings will go up on our Red Cross blog so that any hospital, military base or veteran's center can easily share the stream of videos with the military community."

The Red Cross also seeks ongoing and reliable giving through its Annual Disaster Giving Program (ADGP) for corporate donors. Corporations have rallied around this program by committing to help the Red Cross prepare for and respond to disasters through an annual gift instead of giving episodically or after a disaster. The program has grown significantly, and 78 corporations now donate $500,000 or more annually as ADGP members. Last year, the program maintained a 94 percent retention rate.

"Financial contributions are just one piece of the deep partnerships that the Red Cross has with corporations," explains Litvack. "About a quarter of our corporate donors also host blood drives for us. They purchase Red Cross CPR and first-aid courses so that their employees know how to respond to emergencies at home or at work. Some corporations also help through programs in which they compensate employees for time spent volunteering for the Red Cross and other organizations."

Corporations can also offer the Red Cross their ideas and expertise. "Loaned executives, for example, will help on an IT project or lend their expertise to help our organization run more effectively," says Litvack.

The Red Cross works hard to make every donation count. "On average, 91 cents out of every dollar we spend is invested in our humanitarian services and programs," says Litvack. "We work to ensure efficient use of resources—both paid and volunteer—and use our size and scale to make the most of every dollar our donors entrust with us."

"Committed corporate partners are instrumental in helping the Red Cross deliver our mission," Litvack says. ■

About Our Holiday Partners

The American Red Cross is grateful for the support of our corporate partners that generously contribute to our Holiday Giving Campaign. They include: Circle K and its customers in the West and Florida divisions; Community Safety Foundation, funded by CSAA Insurance Group, a AAA Insurer; Mazda and its dealers nationwide; and University of Phoenix. Thanks to the generosity of these and other sponsors, the Red Cross is able to carry out its mission of helping people prevent, prepare for and respond to emergencies every day here and around the world. Each holiday season the Red Cross gives everyone the chance to support our work by giving blood, signing a card for military heroes or buying a gift through our holiday catalog.

The first 50 readers to donate at least $100 to the Red Cross through www.redcross.org/forbes between November 30, 2013, and December 31, 2013, will receive an iPad cover from Forbes.*

*Receipt of an iPad Cover may reduce the amount of a donor's tax deduction for the donated amount.

Your gift of any size will support the lifesaving mission of the American Red Cross, whether it's responding to a disaster, collecting lifesaving blood, teaching skills that can save a life, or assisting our military members and their families.


We lost everything in a fire.
The Red Cross gave us hope.


This holiday, give something that means something, to someone like
Angelina

THOUGHT LEADERS

MARK SKOUSEN — CAPITAL FLOWS

A NEW WAY TO MEASURE THE ECONOMY

THOMAS KUHLENBECK

STARTING IN SPRING 2014 the U.S. Bureau of Economic Analysis at the Commerce Department will release a breakthrough new economic statistic on a quarterly basis. It's called gross output (GO), a measure of total sales volume at all stages of production. GO is almost twice the size of GDP, the standard yardstick for measuring total goods and services the nation has produced in a year.

Starting with my work *The Structure of Production* in 1990, I have made the case that we needed a new statistic beyond GDP that measures spending throughout the entire production process, not just final output. Based on my research, GO is a better indicator of the business cycle and more consistent with economic growth theory.

While GDP is a good measure of national economic performance, it has a major flaw: In limiting itself to final output, GDP downplays the "make" economy, that is, the supply chain needed to produce all those finished goods and services.

This narrow focus on GDP has created much mischief in the media, government policy and boardroom decision making. For example, journalists are constantly overemphasizing consumer and government spending as the driving force behind the economy, rather than saving, business investment and technological advances.

Since consumer spending represents 70% or more of GDP, followed by 20% by government, the media naively conclude that any slowdown in retail sales or government stimulus is necessarily bad for the economy. For instance, the *Wall Street Journal* stated a few years ago, "The housing bust has chilled consumer spending—the largest single driver of the U.S. economy."

Or take this statement in the *New York Times* in 2011 during the economic recovery: "Friday's estimates of second-quarter gross domestic product [1.3%, well below consensus forecasts] provided a sobering look at how a decline in public spending and investment can restrain growth. ... The astonishingly slow growth rate from April through June was due in large part to sluggish consumer spending and an increase in imports, which subtract from growth numbers. But dwindling government spending also held back growth."

Gross output exposes these misconceptions. First, gross output provides a more accurate picture of what drives the economy. Using GO as a more comprehensive measure of economic activity, spending by consumers turns out to represent around 40% of the economy, not 70%, as commonly reported. Spending by business (private investment plus intermediate inputs) is substantially bigger, representing over 50% of economic activity. That's more consistent with economic growth theory, which emphasizes productive saving and investment in technology on the producer side. Consumer spending is largely the effect, not the cause, of prosperity.

Second, GO is significantly more sensitive to the business cycle than GDP. During the 2008-09 Great Recession nominal GDP fell only 2% (owing largely to countercyclical increases in government spending), but GO collapsed by over 7% and intermediate inputs by 10%. Since 2009 nominal GDP has increased 3% to 4% a year, but GO has climbed over 5% a year.

I believe that gross output fills in a big piece of the macroeconomic puzzle. It establishes the proper balance between production and consumption, i.e., between the "make" and the "use" economy, and it is more consistent with growth theory. As Steve Landefeld, director of the BEA, and coeditors Dale Jorgenson and William Nordhaus state in their work, *A New Architecture for the U.S. Economic Accounts* (University of Chicago Press, 2006), "Gross output [GO] is the natural measure of the production sector, while net output [GDP] is appropriate as a measure of welfare. Both are required in a complete system of accounts."

When the BEA releases its GDP estimates next spring, be on the lookout for an even more vital statistic—gross output.

CONSUMER SPENDING IS LARGELY THE EFFECT, NOT THE CAUSE, OF PROSPERITY

MARK SKOUSEN IS EDITOR OF *FORECASTS & STRATEGIES* AND WILL BE A PRESIDENTIAL FELLOW AT CHAPMAN UNIVERSITY IN 2014. HE IS THE AUTHOR OF *THE STRUCTURE OF PRODUCTION* (NEW YORK UNIVERSITY PRESS, REVISED 2007), WHICH INTRODUCED THE CONCEPT OF GROSS OUTPUT AS AN ESSENTIAL MACROECONOMIC TOOL.

BIGGEST PRIVATE COMPANIES

Home Despot

John Menard makes all the rules—and the billions—at his midwestern hardware empire.

BY ERIN CARLYLE

At his command: "We feel staying private is the right decision for our situation," Menard says.

JOE ROBBINS / GETTY IMAGES FOR NASCAR

Four months before December a blue-shirted Menards employee at the hardware retailer's flagship store in Eau Claire, Wis. surveys a display of artificial Christmas trees. A 7.5-foot spruce dolled up in faux snow towers over him as he takes a customer call. "Of course we sell safety goggles! This is Menards! We sell everything from diapers to deodorant," he says.

And all at low prices, without feeling like a bargain-basement explosion. This is the formula: bright clean floors, neatly arranged product selection, employees who are knowledgeable and eager to help. The $7.9 billion (estimated 2012 sales) retailer—the largest private do-it-yourself chain in the nation, in sales behind only publicly traded $74.8 billion Home Depot and $50.5 billion Lowe's—was ranked the most customer-centric retailer among the competition by research firm Dunnhumby and may just be the best hardware store in the country.

That's largely due to the vision—and authoritarian management—of 73-year-old founder John Menard Jr., Wisconsin's richest person (net worth: $7.5 billion, No. 57 on the latest Forbes 400). If our annual list of America's Biggest Private Companies had a poster child, Menard, who owns 89% of the company, would be the guy.

While Menard tells FORBES that family members now run the company "along with some very competent and longtime professional management," insiders say he still oversees even the smallest details, from the material for store parking lots to answering company mail. He's never felt much pull to take his kingdom public. "We feel staying private is the right decision for our situation," he says.

That's understandable. Menard's throwback style would be a rough fit for a public company. Everyone—including executives—is supposed to punch a time clock. Store managers are paid hourly but can make six

figures with annual bonuses tied to performance. Managers must adhere to orders from corporate on everything from where to place merchandise to which product to use to clean store floors. A fleet of company inspectors flies out from Eau Claire to make sure stores toe the line, and Menard personally reads the reports. Managers who miss the mark get slapped with fines. “John at his core is driven on results,” says Tony Misura, a former Menards manager. “There are his objectives and his values, the way he perceives them, and there are no other rules other than results.”

Last year the retailer paid an undisclosed settlement to a 40-year veteran who claimed age discrimination after he turned 60 and was abruptly dismissed. A similar case involving a 34-year veteran is still open. The company continues to fight a former Menards attorney (the founder’s ex-girlfriend’s sister) who won $1.65 million after claiming gender discrimination and wrongful termination. And last year Menards agreed to pay $1 million in a class action launched by African-Americans claiming they were systematically denied promotions. “Keep Your Mouth Shut about any confidential company business,” reads a 2001–02 employee contract.

“John at his core is driven on results. There are his objectives and his values ...and there are no other rules, other than results.”

His bootstrap background explains a lot. Menard is the eldest of eight kids from Eau Claire. “We moved to a farm when I was 5 years old, and I grew up there,” he says. “Farm life is hard but a great atmosphere to grow up in.” He started out building agricultural structures in the area surrounding his hometown while he was a student at the University of Wisconsin-Eau Claire. He incorporated his business in 1962, the year after North Carolina-based Lowe’s went public. By the time he graduated in 1963 (with majors in math and business and a minor in psychology), he was making as much as IBM offered him to join up, so he passed on a job to build his own business.

Menard began selling lumber left over from his building projects on Saturdays, when regular lumberyards were closed. He

The Top 50 Private Companies

DELL AND HEINZ JOIN OUR RANKINGS AS HILTON, ARAMARK AND BI-LO HOLDINGS PREPARE TO GO PUBLIC AND DEPART.

1 (2012 rank: 1) **Cargill**
FOOD & DRINK
REVENUE: $136.7 BILLION
Tops the list for the sixth year in a row.

2 (2) **Koch Industries**
MULTICOMPANY
$115.0 BILLION

3 (-) **Dell**
TECHNOLOGY HARDWARE & EQUIP
$56.9 BILLION

After a brutal fight with activist investor Carl Icahn, Michael Dell and private equity firm Silver Lake Partners completed $25 billion buyout in October. First company to debut in top ten since Chrysler in 2007.

4 (4) **Bechtel**
CONSTRUCTION
$37.9 BILLION

5 (3) **Mars**
FOOD & DRINK
$33.0 BILLION

6 (5) **PricewaterhouseCoopers**
BUSINESS SERVICES & SUPPLIES
$32.1 BILLION

7 (6) **Pilot Flying J**
CONVENIENCE STORES & GAS STATIONS
$30.4 BILLION

8 (7) **Publix Super Markets**
FOOD MARKETS
$27.5 BILLION
Largest employee-owned company in the U.S. is gearing up for a fight over market share as Wal-Mart continues to expand in southern Florida.

9 (9) **Love's Travel Stops & Country Stores**
CONVENIENCE STORES & GAS STATIONS
$26.1 BILLION

10 (8) **Ernst & Young**
BUSINESS SERVICES & SUPPLIES
$25.8 BILLION

11 (14) **Reyes Holdings**
FOOD & DRINK
$22.0 BILLION

12 (10) **C&S Wholesale Grocers**
FOOD & DRINK
$21.7[1] BILLION

13 (11) **US Foods**
FOOD & DRINK
$20.8[1] BILLION

14 (12) **HE Butt Grocery Co.**
FOOD MARKETS
$20.0 BILLION

15 (20) **Enterprise Holdings**
SERVICES
$16.4 BILLION

16 (17) **TransMontaigne**
OIL & GAS OPERATIONS
$16.0[1] BILLION

17 (16) **Cox Enterprises**
MEDIA
$15.3 BILLION
In January canceled $300 mil IPO of AutoTrader, citing market conditions.

18 (30) **Cumberland Farms**
CONVENIENCE STORES & GAS STATIONS
$15.0 BILLION

19 (15) **Meijer**
FOOD MARKETS
$15.0[1] BILLION

20 (19) **Aramark**
BUSINESS SERVICES & SUPPLIES
$13.9[1] BILLION (PREPARING IPO)

21 (18) **Toys “R” Us**
RETAILING
$13.5 BILLION
Plans to open 100 stores in 21 countries.

22 (22) **Performance Food Group**
FOOD & DRINK
$12.8 BILLION

23 (21) **Fidelity Investments**
DIVERSIFIED FINANCIALS
$12.6 BILLION

24 (24) **Transammonia**
TRADING COMPANIES
$12.2 BILLION

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Despite Buffeting, Gold Retains Its Unique Investment Value

By Michael Roney

Competing economic crosswinds have buffeted the gold market over this past year, with prices ranging from $1,199 to $1,748 an ounce. Still, this most unique of asset classes remains—perhaps now more than ever—the one portfolio element that can be relied upon for stability and diversification, with a dependable long-term return.

"For now we're going to see gold prices potentially be driven more by monetary policy and the political environment," says David Mazza, vice president of State Street Global Advisors (SSgA) and head of the firm's ETF Investment Strategy for the Americas. "However, it is being set up for potentially more positive performance, while its unique role as a valuable diversification element continues."

Uncertainty and Potential Shaping The Gold Market

The U.S. economy is gradually improving and interest rates are expected to rise, exerting downward pressure on gold prices. Yet, at the same time, ongoing debt-ceiling and budgeting issues continue to fuel uncertainty. The largest driver for gold remains supply and demand in the jewelry and industrial markets, against rather flat production of late. "We're entering a holiday season where jewelry demand is strongest, particularly in markets like India and China, and historically that accounts for roughly two-thirds of gold demand," Mazza notes.

He points out that two years ago gold was $500 higher per ounce during this same season. "Because that recent speculative activity now seems to have been shaken out of gold's price—it has overshot both the upside and downside and is now in the $1,300 to $1,400 range—that puts it in a more positive position from a long-term fundamentals basis, which really has the potential to start kicking into play today."

A Unique Asset Class

Gold offers a number of potential benefits to investors, including an effective hedge against inflation, dollar depreciation and stock market volatility. "In our opinion, gold is both an investment and financial asset," says Mazza. "It's not only taken out of the ground for industrial or technological use like other commodities, but also used as a long-term investment—not just by individuals, but by central banks that look at gold relative to other currencies. Those factors, along with its singular supply-and-demand characteristics, give gold unique risk-and-return profiles that are not correlated to traditional assets like stocks and bonds, providing real strategic value for diversification."

That lack of correlation makes gold less subject to some of the buffeting that may hit other parts of the market. Mazza notes that when gold is held as 2% to 10% of a portfolio, depending upon an investor's particular holdings and goals, it tends to lead to more favorable returns and reduced volatility. "Gold's volatility is somewhere in between the bond market and equities, so when added to a riskier portfolio, it can reduce volatility over the long run."

The Gold ETF Advantage

Investors can buy and store gold in bars and coins, but the ETF has unique benefits. State Street's own SPDR® Gold Shares (GLD) and other gold-backed ETFs are traded on an exchange just like any other individual security, providing intraday liquidity and excellent insight into real-time price, volume, supply and demand. This allows investors to rebalance their portfolios to their strategic viewpoints, or take advantage of short-term market opportunities as they arise. Today GLD holds over 800 tons of gold worth approximately US$37 billion in its London warehouse.

"At 40 basis points, GLD is relatively less expensive than what it would cost to store and secure other gold investments, and transaction costs are negligible to investors," Mazza explains. "This gives you a better view on what you're going to pay as the difference between your bid and your offer—something that can be less transparent when dealing with gold bullion dealers."

> "Gold's volatility is somewhere in between the bond market and equities, so when added to a riskier portfolio, it can reduce volatility over the long run."
>
> **— David Mazza,**
> Vice President and Head of ETF Investment Strategy at SSgA

Lessons Learned

Gold's significant run-up over the past few years drew many who thought that its only role would be to outperform traditional assets like stocks and bonds. However, today's informed investor fully recognizes that there's still nothing like gold for diversification and a long-term hedge against inflation.

"The main lesson we gained from the global financial crisis is that capital preservation and risk management are of particular importance going forward," Mazza states. "With a gold ETF, investors can think about what allocation is most integral for the long term, and then, when they tactically want to take advantage of market opportunities or dislocations, they can do that." ■

www.spdrgoldshares.com
www.spdrs.com

bought property with a railway spur and began buying directly from lumber carts rolling in from the West Coast. Eventually he augmented his inventory with shingles and nails, opening his first retail store in Eau Claire in 1964—14 years before Bernie Marcus and Arthur Blank founded Home Depot. By the early 1990s Menards had 78 store locations, and its founder stopped building sheds and focused entirely on retail.

Menards was the first DIY retailer to use a hub-and-spoke distribution system, sending out trucks from Eau Claire. "As Depot grew and Lowe's grew, I don't know if they copied the Wal-Mart plan or the Menards plan, because he certainly was doing it before they were," says retail consultant John Cashmore. The company saved money by pressure-treating its own lumber and eventually added an entire manufacturing division: plants dedicated to prehung doors, truss manufacturing, steel roll forming, and nail and board packaging. In the summers he chopped up pallets and resold them as mulch; in Wisconsin's cold winters he packed old, broken-down pallets into furnaces to heat the buildings at his company's corporate headquarters. "He never wasted an inch of lumber," says former Home Channel News editor Gary Ruderman.

The billionaire's thrift also shaped the company's growth pattern. Rather than race through the 1990s gobbling up smaller, collapsing players, as did Depot and Lowe's, Menards mostly expanded organically, financing growth through the company's own cash pile. Between 1990 and 1998 the company nearly doubled its number of stores; Home Depot increased its stores five times over in the same period to 761. Today Home Depot has 2,260 stores in the U.S., Canada, and Mexico. Menards is still regional: 279 stores in 14 states across the Midwest and Wyoming.

And while he may not be easy to work for, Menard's control-freak, cost-saving ways do well by shoppers. Cashmore, the retail consultant, once compared Menards prices to rivals and found them lower on *every single item*—often by one penny. "Being private has many advantages," says Anne Brouwer of McMillan Doolittle. "He doesn't have the level of scrutiny or oversight to have to worry about. He can kind of run it the way he wants to run it."

It's good to be the king. F

25 (23) **Platinum Equity**
MULTICOMPANY
$12.0[1] BILLION

26 (-) **H. J. Heinz**
FOOD & DRINK
$11.5 BILLION
Berkshire Hathaway took private in June in deal valued at $28b with debt.

27 (37) **JM Family Enterprises**
CONSUMER DURABLES
$11.5 BILLION

28 (25) **Amway**
HOUSEHOLD & PERSONAL PRODUCTS
$11.3 BILLION

29 (28) **Kiewit Corp.**
CONSTRUCTION
$11.2 BILLION

30 (26) **QuikTrip**
CONVENIENCE STORES & GAS STATIONS
$11.2 BILLION

31 (27) **First Data**
BUSINESS SERVICES & SUPPLIES
$10.7 BILLION

32 (32) **Southern Wine & Spirits**
FOOD & DRINK
$10.5 BILLION

33 (29) **Giant Eagle**
FOOD MARKETS
$9.9 BILLION

34 (39) **Gordon Food Service**
FOOD & DRINK
$9.8 BILLION

35 (33) **Bi-Lo Holdings**
FOOD MARKETS
$9.7 BILLION (PREPARING IPO)

36 (34) **SC Johnson & Son**
HOUSEHOLD & PERSONAL PRODUCTS
$9.6[1] BILLION
In October CEO Fisk Johnson announced a worldwide restructuring.

37 (41) **Allegis Group**
BUSINESS SERVICES & SUPPLIES
$9.5 BILLION

38 (38) **Hilton Worldwide**
HOTELS, RESTAURANTS & LEISURE
$9.3 BILLION (PREPARING IPO)

[1]ESTIMATED.

39 (36) **RaceTrac Petroleum**
CONVENIENCE STORES & GAS STATIONS
$9.1 BILLION

40 (40) **Wawa**
CONVENIENCE STORES & GAS STATIONS
$9.0 BILLION

41 (54) **Mansfield Oil**
OIL & GAS OPERATIONS
$8.0 BILLION

42 (45) **Bloomberg**
BUSINESS SERVICES & SUPPLIES
$7.9 BILLION

Founder Michael Bloomberg says he won't return to running his financial information firm when his third term as mayor of New York City ends in January. Revenues increased only 4% to $7.9 billion, due to decrease in new subscriptions to the Bloomberg terminal.

43 (56) **Menards**
RETAILING
$7.9[1] BILLION

44 (47) **McKinsey & Co.**
BUSINESS SERVICES & SUPPLIES
$7.8[1] BILLION

45 (43) **Sinclair Oil**
OIL & GAS OPERATIONS
$7.7[1] BILLION
Sinclair Oil's billionaire owner, Robert Earl Holding, died in April. Son Stephen likely next CEO of holding company.

46 (49) **Hy-Vee**
FOOD MARKETS
$7.6[1] BILLION

47 (35) **Tenaska Energy**
MULTICOMPANY
$7.2 BILLION

48 (57) **Lansing Trade Group**
BUSINESS SERVICES & SUPPLIES
$7.2 BILLION

49 (42) **Momentive Performance Materials Holdings**
CHEMICALS
$7.1 BILLION

50 (51) **Capital Group Cos.**
DIVERSIFIED FINANCIALS
$7.0[1] BILLION

CHARLES SYKES / INVISION / AP


YOU ARE WELCOME!

Duck (Dynasty) Season

How the Robertsons stole Christmas.

BY CLARE O'CONNOR

Camo Christmas: *Duck Dynasty*'s Robertson clan will be everywhere this holiday season.

IN THE NAME OF COMMERCE, Willie Robertson has been turned into a Chia Pet, a bobblehead and a garden gnome. Come this Christmas season Robertson and his family, the bayou-based cast of A&E's reality megahit, *Duck Dynasty*, will be something more: an inescapable cyclone of gear, greeting cards, clothes—even a holiday album. "I've just been surprised at the enormity of it," says 41-year-old family figurehead Willie. "The nature of the show causes people to buy into it."

For legions of devoted viewers—11.8 million for August's season premiere, a reality TV record—these duck-hunters-turned-millionaires are the new faces of the American Dream. And boy, do their faces move merchandise. By the end of 2013 *Duck Dynasty* product tie-ins will have raked in a massive $400 million in retail sales, according to industry sources.

Wal-Mart alone accounts for about $200 million of that bounty, with some stores devoting entire aisles to Robertson-themed merchandise. Other major chains selling *Duck Dynasty* goods include Target and Kohl's.

"Growth has been phenomenal," says Kate Winn, A&E's senior vice president of consumer products, who's overseen the rollout of all things camouflage. "We've seen 50% growth in revenues quarter by quarter."

Duck Dynasty debuted in spring 2012 but didn't "pop," to use Winn's term, until a special holiday episode in December last year. Both A&E and Wal-Mart pounced, with the help of Brandgenuity, a branding agency overseeing more than 75 licensing deals for everything from rain boots to antibacterial bandages.

At Wal-Mart's annual shareholders conference in June, the retail giant announced that its bestselling piece of apparel across every category over the past year—men's, women's and children's—was a *Duck Dynasty* graphic T-shirt. At the time, products based on the show could be found in 6 Wal-Mart departments. Today that number is 13 and growing.

Wal-Mart was the first major retailer to recognize the moneymaking potential of the Robertsons, cementing a relationship back when they were simply the offbeat clan behind Duck Commander, a West Monroe, La. manufacturer of duck calls handcrafted from cedar. But it isn't the last. Universal Music scored when *Duck the Halls*, an album of the Robertsons' holiday music, debuted at number one on *Billboard*'s country charts in November. Hallmark is shilling holiday cards and ornaments adorned with the cast's faces and catchphrases. "Have a Christmas That's Family Certified, Redneck Approved," reads one greeting. Next up: products for the casual outdoorsman, like branded Igloo coolers and *Duck Dynasty* fishing rods and reels by Zebco.

All this has meant big things for the Robertsons' bottom line. Typical celebrity branding arrangements see stars getting a small cut (4% to 6%, generally) of wholesale. Beyond that, the cast of *Duck Dynasty* makes a combined $200,000 per episode, thanks to an August raise, and their family business stands to make over $50 million at retail on duck calls alone in 2013.

"It's the American dream: They made themselves into millionaires," says Charlie Anderson, CEO of retail marketing agency Shoptology. "Yet people working for $8 an hour can still relate to them." F

Hockey Go Home!

The NHL's financial future lies north of the U.S. border. Just ask Winnipeg.

BY TOM VAN RIPER

Under CEO Jim Ludlow the Winnipeg Jets are booming, thanks to a timely move from Atlanta to Canada.

JOHN WOODS FOR FORBES

The Winnipeg Jets are doing something billionaire hockey team owners like Terry Pegula in Buffalo and Henry Samueli in Anaheim can't seem to pull off, a trick so complex that scores of highly paid sports executives in cities across the United States are unable to duplicate it.

They're turning a profit.

While 12 of 30 National Hockey League teams operated at a loss or close to it during the 2012–13 season, according to FORBES estimates, the Jets are basking in a turnaround, thanks to a timely move from Atlanta to hockey-mad Winnipeg after a 15-year absence of the sport from the city.

In the first year following the 2011 relocation Jets revenues shot up 48% to $105 million with operating profit of $13.3 million—despite relocating to a 700,000-person metro roughly one-eighth the size of Atlanta. Winnipeg's 15,000-seat arena may be the smallest in the NHL, but it's always sold out, with average ticket prices of $81, third highest in the league.

So while True North Sports & Entertainment paid $110 million for the Jets (plus a $60 million relocation fee), just $10 million less than the St. Louis Blues sold for in 2012, Winnipeg is now worth $155 million more than the Blues, according to FORBES.

All of which proves that when it comes to hockey, there really is no place like Canada. "This has been a dominant hockey market over the years," says Jim Ludlow, CEO of True North, matter-of-factly.

Winnipeg's success should be a siren song for the rest of the league. Hoping for growth, in the 1990s the NHL invaded Sun Belt cities like Miami, Tampa, Dallas and Phoenix (where the original Jets fled to in 1996, only to eventually incur bankruptcy). It hasn't worked. Those clubs routinely discount tickets and consistently rank in the league's bottom seven in local cable viewers, averaging below 1% of their mar-


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CANADIAN POWER PLAY

Teams north of the border dominate the top of our NHL valuations thanks to typically higher attendance and arena revenue than their U.S. rivals.

RANK	TEAM / OWNER (YEAR ACQUIRED)	VALUE: CURRENT[1] ($MIL)	VALUE: 1-YEAR CHANGE	DEBT/ VALUE[2]	REVENUE ($MIL)	OPERATING INCOME ($MIL)
1	TORONTO MAPLE LEAFS / BELL CANADA, ROGERS COMMUNICATIONS ('12)	$1,150	15%	14%	$142	$48.7
2	NEW YORK RANGERS / MADISON SQUARE GARDEN ('97)	850	13	0	131	27.3
3	MONTREAL CANADIENS / MOLSON FAMILY ('09)	775	35	37	127	29.6
4	VANCOUVER CANUCKS / AQUILINI FAMILY ('05)	700	105	14	101	15.8
5	CHICAGO BLACKHAWKS / ROCKY WIRTZ ('54)	625	79	0	115	25.6
6	BOSTON BRUINS / JEREMY JACOBS ('75)	600	72	18	114	18.5
7	PHILADELPHIA FLYERS / COMCAST SPECTACOR ('96)	500	49	13	95	6.0
8	PITTSBURGH PENGUINS / MARIO LEMIEUX, RON BURKLE ('99)	480	67	21	107	20.9
9	DETROIT RED WINGS / MICHAEL & MARIAN ILITCH ('82)	470	36	0	96	10.5
10	LOS ANGELES KINGS / PHILIP ANSCHUTZ ('95)	450	63	28	98	8.2
11	CALGARY FLAMES / CALGARY FLAMES LP ('80)	420	71	8	89	11.5
12	WASHINGTON CAPITALS / TED LEONSIS ('99)	414	66	31	83	8.0
13	SAN JOSE SHARKS / HASSO PLATTNER ('02)	405	82	0	84	2.1
14	EDMONTON OILERS / DARYL KATZ ('08)	400	78	25	80	10.3
15	OTTAWA SENATORS / EUGENE MELNYK ('03)	380	73	39	83	6.8
16	WINNIPEG JETS / TRUE NORTH SPORTS & ENTERTAINMENT ('11)	340	70	38	79	6.3
17	COLORADO AVALANCHE / STAN KROENKE ('00)	337	60	3	67	0.3
18	DALLAS STARS / TOM GAGLARDI ('11)	333	39	45	79	1.6
19	MINNESOTA WILD / CRAIG LEIPOLD, PHILIP FALCONE ('08)	330	51	34	81	−13.6
20	NEW JERSEY DEVILS / JOSHUA HARRIS, DAVID BLITZER ('13)	320	56	81	78	−4.2
21	ANAHEIM DUCKS / HENRY & SUSAN SAMUELI ('05)	300	56	23	73	−3.9
22	BUFFALO SABRES / TERRENCE PEGULA ('11)	250	43	32	76	−1.0
23	FLORIDA PANTHERS / VINCENT VIOLA ('13)	240	41	50	69	−7.7
24	NASHVILLE PREDATORS / THOMAS CIGARRAN ('07)	205	23	41	71	−0.8
25	PHOENIX COYOTES / GEORGE GOSBEE, ANTHONY LEBLANC ('13)	200	49	62	67	−8.9
26	NEW YORK ISLANDERS / CHARLES WANG ('00)	195	26	51	61	−1.2
27	CAROLINA HURRICANES / PETER KARMANOS JR ('94)	187	15	59	71	−3.4
28	ST LOUIS BLUES / TOM STILLMAN ('12)	185	42	35	72	−2.5
29	TAMPA BAY LIGHTNING / JEFFREY VINIK ('10)	180	3	25	72	−5.4
30	COLUMBUS BLUE JACKETS / JOHN P MCCONNELL, NATIONWIDE ('97, '12)	175	21	43	69	4.9
	LEAGUE AVERAGE	413	50	29	88	7.0

REVENUE AND OPERATING INCOME (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION) ARE FOR 2012-13 LOCKOUT-SHORTENED SEASON. [1] ENTERPRISE VALUE OF TEAM BASED ON CURRENT ARENA DEAL (UNLESS NEW ARENA IS PENDING). [2] INCLUDES STADIUM DEBT. STATISTICS BY KURT BADENHAUSEN, MICHAEL K. OZANIAN AND CHRISTINA SETTIMI.

kets. Meanwhile, Quebec lost its franchise to Colorado in 1995, and Hamilton, Ont. lost out on landing the Coyotes in 2009 when the NHL nixed a sale to billionaire Jim Balsillie.

What's behind this market distortion? Subsidies, of course. American taxpayers are far more willing to prop up teams than their Canadian counterparts are. Both Florida clubs, the Panthers and the Lightning, enjoy sales-tax rebates of $2 million a year, money that goes back to the team rather than to the state. Hockey remains in Phoenix only because the city of Glendale, Ariz., Phoenix's neighbor, where the Coyotes play, agreed to cover up to $50 million in team operating losses.

Atlanta didn't do that, compelling its ownership group, the Atlanta Spirit, to sell to True North. "If American taxpayers were less interested in subsidizing NHL teams, there would be more teams in Canada," says the Toronto *Globe & Mail*'s Tony Keller, who has studied the economics of the NHL. The NHL declined to comment.

Ludlow thinks moving north is a no-brainer for flailing clubs. Businesses fill his arena's 55 suites, some of them committing for up to ten years. Season-ticket holders commit for three to five years; the waiting list is up to 8,000 seats. The reason is simple. "We aren't up against MLB or other major sports," he says. "We are the go-to place."


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Founder and CEO Josh Tetrick pondering a dish of scrambled "eggs" made from plants.

Bill Gates' Food Fetish

Some of the world's most influential investors are betting Hampton Creek Foods can make the humble egg obsolete. Billions are at stake.

BY RYAN MAC

IT'S 8 A.M. ON OPENING DAY AT A NEW Whole Foods in San Francisco's Castro neighborhood, and Josh Tetrick is a just a little too excited for a guy hawking mankind's blandest condiment.

With fingers fidgeting he paces in front of an open-air fridge stocked with ready-made quinoa and kale salads and verbally pushes people toward his company's sample booth. The sell? Hampton Creek Foods' plant-based mayonnaise, which has been mixed into an Italian antipasto salad turned breakfast sampler.

"Come try our breakfast bruschetta," the blue-eyed, square-jawed Tetrick shouts at a millennial in yoga pants and neon running shoes. She turns and speed walks toward the checkout line.

While Tetrick, Hampton Creek's CEO, hasn't been able to persuade everyone, it's the number of people he has convinced that has the San Francisco food startup turning heads. Bill Gates is a backer, handpicking the company as one that could change future food production. Tetrick has raised $6 million to date from the likes of Peter Thiel's Founders Fund, Vinod Khosla's Khosla Ventures and environment-friendly billionaire Tom Steyer. Newly turned vegan Al Gore is also circling.

To Gates and the others, Hampton Creek's value is in its multibillion-dollar opportunity to make the egg obsolete, replacing it with a plant-based formula that is cheaper, cholesterol-free and more humane. It's Silicon Valley solutionism at its finest, focusing entrepreneurial flair and science on an industry not known for innovation.

"Food to me is broken for a lot of reasons, but the best sort of manifestation of that is the world of intensive animal agriculture," says the 33-year-old Tetrick. With a slight southern drawl, he speaks with a particular distaste for the egg industry, notorious for caging and force-feeding beakless chickens and burning through resources.

But the company sells itself on economics as much as on environmental stewardship. The ratio of energy input to food energy output for chicken-laid eggs is about 39-to-1, behind only beef and lamb farming. Hampton Creek's plant products maintain a ratio of 2-to-1. That translates into direct cost savings: Its egg equivalents cost 39 cents a pound—almost half of its chicken-begat counterpart. As for the mayonnaise, the final product, mixed with lemon juice, vinegar

MARTIN KLIMEK / GETTY IMAGES FOR FORBES


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and other ingredients, costs Whole Foods 10% less than regular mayo. "Hampton Creek is taking on an entrenched industry that has been doing business the same way for years. [The company has] a core technology that is fundamentally more affordable," says Khosla.

For now the company has only the mayo but will begin selling egg-free cookie dough in February. FORBES estimates Hampton Creek has garnered less than $1 million in revenue in about a month of selling goods to consumers.

Tetrick's progress isn't bad for someone who graduated third from the bottom of his high school class. Hailing from Birmingham, Ala., Tetrick grew up on a steady diet of chicken wings and buttered biscuits with the hopes of playing professional football. The son of a hairdresser, he walked on to West Virginia University's football team, playing linebacker for a year and a half before realizing that academics was a better way to climb above the poverty line. He transferred to Cornell, where he graduated top of his class. After getting a law degree from the University of Michigan in 2008, he worked on climate-change strategy and started a now defunct site called 33needs, which raised money for social ventures.

Tetrick, who turned vegetarian in college, had often engaged his childhood friend Joshua Balk on the ethics of food production. Balk, director of corporate policy at the Humane Society, would often tell Tetrick how food companies wanted to be animal-friendly but were more eager for a cheaper egg product that didn't compromise on taste. That was all Tetrick needed to hear before he dropped $37,000 of his own money into a startup he named after Balk's dog in 2011.

"The odds that this guy would be working on an animal-friendly, environmentally friendly project are probably pretty interesting," says Khosla Ventures partner Samir Kaul, who seeded Hampton Creek with $500,000. "He has been a tough, gritty guy his entire life."

Fast-forward two years and Hampton Creek Foods is one of the many startups nestled in the former warehouses south of San Francisco's Market Street. Instead of a space filled with software developers working on Macs, Hampton Creek has biochemists poached from Unilever and Otis Spunkmeyer rubbing elbows with chefs cooking up French toast and cookies from the vials of yellow pea and sorghum solutions. Hampton Creek has examined the molecular properties of 1,500 types of plants to find species with the best characteristics for emulsifying into mayo or congealing in a hot pan like scrambled eggs.

Those results—and subsequent publicity—have traditional egg producers on the defensive. The American Egg Board began an educational campaign in October with the attempt to persuade consumers to "Accept No Substitutes." President Joanne Ivy maintains that the campaign was not directed at Hampton Creek, and indeed, egg substitutes such as ConAgra's Egg Beaters have been around for years. But those are often composed of fillers such as xanthan and guar gums. "Consumers want natural ingredients and a clean label," she says. "And there's nothing more natural than an egg."

Tetrick begs to differ, reading ingredients like organic sugar and canola oil off a label on his company's Just Mayo to prove a point. "Putting a female bird in a cage in a space so small that a female bird can't flap her wings for two years, I find that the antithesis of natural," he responds.

Validated originally by certain regional Whole Foods locations, Just Mayo is now in 120 stores and will be available nationally by year's end. If talks go according to plan, the mayo may find its way onto the shelves of another major supermarket by early next year. Tetrick is in negotiations with a giant fast-food chain to use its mayo as a condiment, but success there is contingent on Hampton Creek's mayonnaise coming in cheaper than the incumbent. Similarly, a joint research venture with General Mills is exploring if Hampton Creek's concoctions are up to snuff for a corporation that oversees brands like Betty Crocker and Pillsbury.

Mayonnaise, an $11.3 billion global market, could be just the beginning. A shelf-stable cookie dough is due out in February, with another formula in the works that is meant to mimic scrambled eggs when cooked. That's a $42.5 billion market dominated by corporate farmers and their hens. With billionaires watching his work carefully, Tetrick and Hampton Creek are just hoping to avoid laying an egg on their way to saving the planet.

THE KILLER APP

ALL MIXED UP

Amateur Hitchcocks who find Vine and Instagram too confining for their cinematic visions will want to get behind the lens of MixBit, a free video-creation app developed by Chad Hurley and Steve Chen, whose previous gig was cofounding a little trifle called YouTube. MixBit—available for iPhone, Android and the plain old Web—enables budding directors to shoot video in 16-second chunks, then edit and remix to taste, for finished clips of up to 68 minutes. It's social, of course; you can grab any publicly posted video off MixBit.com for use in your own Oscar contender. Meanwhile, Hurley and Chen's company, Avos Systems, was recently sued by Kanye West and Kim Kardashian for having posted to the site a MixBit of West's marriage proposal. Riling Hollywood already? Auteurs, take note.
—Brian Dawson

Reading Your Financial Footprints

Shrewd startups are crunching the data behind billions of credit card swipes. Why? To sell you more stuff, naturally.

BY ADAM TANNER

Scott Grimes and Lynne Laube, the founders of Cardlytics, have a view into $500 billion of consumer spending.

BRIAN MERWIN FOR FORBES

Lynne Laube and Scott Grimes were among the few Capital One employees left at the office late one afternoon just before Thanksgiving break in 2007. It had been a long day, and they were kicking back in their own nerdy way: spinning stories about anonymous strangers by looking at their card-transaction data.

"This looks like a soccer mom. You can tell because she is going to McDonald's and then Target and then McDonald's and Babies 'R' Us," says Laube. Grimes pointed to another set of data: "This is clearly a single guy. ... He purchases at bars and Taco Bell."

At one point the two executives looked at each other and went silent. "As far as we knew, no one was really using these stories to help marketers better reach that customer," Grimes says. Card-swipe data was a largely untapped mother lode for banks that, seeing the growth of daily-deal startups like Groupon, would be able to make a little extra money (and win loyalty) by pitching targeted deals to customers. The banks would need a nimble middleman to crunch the data and deliver the offers. Within months the two quit their jobs and started Cardlytics.

Laube, 43, Cardlytics' president and COO, and Grimes, 51, its CEO, have since helped pioneer a data-driven advertising niche called merchant-funded rewards. It targets people based on what they buy, not who they are. "If you know where and how someone is spending money, you know lots of things about them without having to know their personally identifying information," Laube says.

Cardlytics, based in Atlanta, has a view into 70% of U.S. bank customers. Its servers will have read 11 billion U.S. transactions this year, amounting to $500 billion of spending. Its algorithms serve up 1 billion ads a month to more than 35 million customers on the websites and mobile apps of 400 banks, including Bank of America, PNC, Regents and Lloyd's of London. Cardlytics says it drives $500 million in sales every quarter across all banks. In a typical arrangement the Sports Authority would want to know everyone who spends more than $100 a month on sporting goods but not at its stores. Cardlytics serves up a Sports Authority offer to those people, and Cardlytics and the banks share a commission from the merchant, typically about 10% of any resulting purchase.

Merchant-funded rewards is still a nascent industry, but Cardlytics believes it has 80% of a market growing at north of 100% a year. Its rivals include Cartera Commerce, edo Interactive, FreeMonee and London-based ERN Global. Cardlytics expects to gross $25 million in the fourth quarter, for a total of $50 million for 2013, up fourfold from 2012. It expects to double revenue next year. Grimes and Laube have raised $104 million in venture funding from firms such as Ca-

China Construction Bank:
An International Model Reaps Rich Rewards

China Construction Bank (CCB) is a modern, competitive provider of global financial services that is strengthening its business in Asia-Pacific while actively expanding its operations in Europe, America and emerging markets through organic growth and mergers and acquisitions.

China Construction Bank

One of CCB's principal objectives is to support Chinese companies that want to expand internationally and foreign firms that do business with China. CCB began its international footprint in 1991 by establishing a London Representative Office. This year, it opened subsidiaries in Russia and Dubai and a branch in Taipei. CCB has received regulatory approvals to open branches in Osaka and Luxembourg and is awaiting final approval for a Toronto Branch. Meanwhile, it has integrated its Hong Kong offices and the China Banking Regulatory Commission has agreed that it can launch in Macau.

Today, CCB has 17 financially strong tier-one overseas entities throughout the world, whose total assets have increased 11 times since 2005 and reached Rmb636.3 billion at the end of June, 2013. It has successfully built franchises in mature economies and has recently extended its footprint in emerging markets.

CCB's success is based on a comprehensive domestic-and-overseas collaboration platform. It has well-defined client and product positioning, supports domestic firms that have global activities, provides loans and other financial services, and offers superior cross-border renminbi service.

In particular, CCB has enjoyed substantial growth in its cross-border renminbi settlement business, increasing 178% year-on-year to Rmb561.1 billion in 2012. Notably, CCB London issued an offshore Rmb1 billion bond, the first by a Chinese bank in Europe.

CCB has launched several marketing campaigns in China for its corporate and institutional clients. It also developed private banking services in its Singapore Branch and began offering retail services in its Tokyo Branch. These initiatives indicate the diverse nature of its ambitions.

Over two decades, CCB's international business has evolved so that it is now entering a stable stage, offering a full range of banking services on a competitive basis and gaining a strong reputation worldwide.

Its global activities include a US$30 million financing agreement with Turk Telekon in 2009 that provided an export buyer's credit for a Chinese technology company; leading a US$300 million syndicated loan for a subsidiary of MTN in Nigeria to support the export of technology and telecommunication equipment from two Chinese companies; and last year a Rmb5.2 billion offshore loan for China Three Gorges Corporation guaranteed against its domestic business.

Its achievements are reflected in its most recent financial results. In the first half of 2013, CCB posted operating income of Rmb252.307 billion, up 10.75% year-on-year, and net profit of Rmb119.964 billion, an increase of 12.65% year-on-year, according to its latest report. Annualized return on average assets and equity was 1.66% and 23.90% respectively, demonstrating a healthy performance, while the bank retained its leading position among its peers for its capital adequacy ratio and tier 1 core capital adequacy ratio, which were 13.34% and 10.66% respectively.

Indeed, CCB's track record across all its businesses has been widely acknowledged and earned it many accolades, including being ranked second on Forbes' Global 2000 list of the world's largest companies. ■

naan Partners and Polaris Venture Partners and strategic investors FIS and Aimia.

The success of Cardlytics was far from a foregone conclusion. Despite their experience at Capital One (Laube was a vice president and Grimes a senior vice president), the duo was rejected by dozens of banks wrestling with the 2008 financial crisis and uneasy about sharing their customer data with two entrepreneurs with PowerPoint and no money. They couldn't get merchants if they had no banks on board. Finally, in late 2008, they got one callback after a meeting with the biggest fish of them all: Bank of America. But on the drive from Atlanta to Charlotte, N.C. Grimes' car caught fire, and the deal went up in smoke, literally, and then figuratively as the bank feared Cardlytics was too small and untested.

They snared their first big client, Intuit, in 2009. At the time the online tax-prep giant handled online banking transactions for many small banks. "I think it worked pretty well," says Eric Dunn, Intuit's SVP for payments and commerce solutions. But, he says, "Cardlytics had a hard time running along behind quickly enough to provide kind of a rich set of offers to cover the banks that they were adding."

Merchants became more interested after Cardlytics finally landed Bank of America in 2010. BankAmeriDeals went live last year, and its customers have received $17 million in savings and generated more than $700 million in sales.

There are limits to what Cardlytics can know or wants to know. It sees only store-level data, so if you go to CVS, Cardlytics doesn't know whether you bought Xanax, chewing gum or condoms. "If someone is doing online gambling, we see that. If they are buying porn at an X-rated site, we see that. We obviously don't use that data, but we do see all of the purchases," Laube says.

The banks remain sticklers for privacy, and prohibit Cardlytics and its rivals from moving the data off the banks' servers. Aditya Bhasin, a senior vice president at BofA overseeing analytics and digital banking, says, "It is extremely important to us that customer information remains inside Bank of America and that no individual customer information is ever shared either with Cardlytics or the merchant."

The success of card-based rewards will depend on whether merchants, many of whom have soured on daily deal programs such as Groupon and LivingSocial, see any value from them. Gadi Maier, CEO and cofounder of Cardlytics competitor FreeMonee, is cautious about the field's future—at least the way his rivals are approaching it. Promising better data analytics than rivals in boosting store sales, he has raised around $40 million in venture capital and expects sales of $10 million this year. His firm, with partners such as Citibank, Discover, Capital One and U.S. Bank, offers data-targeted gifts to customers that expire relatively quickly. "Almost all of the results that merchants are seeing in the card-linked space are the results of accidental redemption," he says, referring to people who click on offers but use them only weeks or months later when they're going to that store anyway. Cardlytics says it can prove the positive impact of its program by setting aside thousands of consumers as a control group who don't get the offer.

Some experts fear the success of merchant-funded rewards could prompt banks and brands to move into more sensitive categories such as health care, gambling or sex in a manner that could alienate clients. "Without any type of regulation and without any type of limit other than the profit model and greed, it seems to me to be inevitable we are going to get to the point where abuses are going to occur," says Scott Dueweke, an expert on alternative payments at Booz Allen Hamilton. "There will be a backlash, not just from the tinfoil-hat, libertarian crowd but from people who are quite average."

"I don't think anyone has quite figured out what level of sharing is okay and what value can be driven given the constraints," says Deepinder Gulati, who served previously as the American Express vice president overseeing strategic insights and digital analytics.

If the banks lose their appetite for rewards programs, Cardlytics has plenty of others who want access to its data insights. "We have hedge funds calling us at least once a week saying, 'Will you sell us the data so we can use it to better predict earnings?'" Laube says. "And we have enough data that I can tell you if any given retailer is going to be up or down for the quarter."

There are plenty of tempting lines of new revenue, if the banks are willing to let Cardlytics have at them. F

TRENDING

What the 55 million Forbes.com users are talking about. For a deeper dive go to FORBES.COM/TECHNOLOGY

COMPANY
SALESFORCE.COM
A big deal with HP and a hyped customer confab in San Francisco masked a milestone: Salesforce is the first cloud-computing firm to gross $1 billion in a quarter.

PERSON
KUWABATAKE SANJURO
That's a pseudonym for the creator of Assassination Market, a site that lets anyone anonymously contribute Bitcoins toward a bounty on any government official. It's Kickstarter for political hits.

IDEA
SPACE HORTICULTURE
In 2015 NASA's Lunar Plant Growth Habitat team will try to raise basil, sunflowers and turnips in coffee-can-size aluminum cylinders—on the moon. It'd be the first creation of life on another celestial body.

HAL MAYFORTH


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When the CFO realized he was double-booked, he brought 150 brand reps along for the ride to Belmore Field.
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"WELCOME TO OUR WORLD"

The Anti-Silicon Valley Startup

Apprenda is thriving by offering engineers what the Bay Area can't—cheap housing and low taxes along with challenging work.

BY SUSAN ADAMS

From left: Apprenda cofounders Matt Ammerman, Sinclair Schuller and Abraham Sultan.

DAVID YELLEN FOR FORBES

Six software engineers are packed into one room, intently coding beneath fluorescent lights. The CEO sits in a cramped cubicle against the wall just outside the kitchen, where a foosball table stands next to a "kegerator," a spigot-topped fridge stocked with beer home-brewed by members of the staff. Down the hall an exercise room has showers where coders who stay all night can sluice off before getting back to their task.

This is not a Silicon Valley startup. Rather it's the office of Apprenda, a booming six-year-old software company in, of all places, Clifton Park, N.Y., a nondescript suburb 15 miles north of Albany. Apprenda makes so-called platform as a service (PaaS) software that helps its clients, which include JPMorgan Chase, Honeywell, Diebold and wholesale drug distributor AmerisourceBergen, create and run new mobile and cloud-based applications without having to burden their own IT departments.

Apprenda is in the midst of a major growth spurt, announcing $16 million in third-round funding this chilly mid-November day, pumping its venture stake to $32 million and accelerating its staffing needs. The plan: to double the number of employees to 100 within the year. "We hired five people in the last week," says cofounder Matt Ammerman, 34. "We're looking in every department, from software engineering to client services to marketing." Despite the hiring challenge, CEO Sinclair Schuller, 31, insists Apprenda's location is an advantage. "I think being an enterprise software company not in Silicon Valley gives us the advantage of forcing investors to focus on the viability of our business and not the vanity of our location."

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9/13

Its far-flung funders agree. New Enterprise Associates, with offices on Sand Hill Road in Menlo Park, and Ignition Partners, also with a branch in Silicon Valley, together have committed $20 million. Ignition's Frank Artale says the firm rarely invests in companies a plane ride away: "We knew that as long as they could recruit the kind of software development talent they needed, the company would be a success."

While Silicon Valley attracts engineers looking for an atmosphere of intense competition, salaries that can reach as high as $250,000 and great weather year-round, Clifton Park sells its employees on stability and a low cost of living, with homes that go for less than a sixth of their California counterparts. Albany-area salaries for software engineers top out at $130,000, but people stay put for longer. While Silicon Valley engineers often job hop after less than a year, only four employees have left Apprenda since its inception; just one went to the West Coast.

When Apprenda's three cofounders started out, they rented an office for $200 a month. At the time Ammerman was living in nearby Troy, N.Y., in a spacious two-bedroom in a complex with a pool where his rent was $800. His colleagues, Schuller and Abraham Sultan, 33, had similar housing deals. That made it possible, when they got their first infusion of $100,000 from friends and family, for Schuller to quit his job at a SUNY administrative office in downtown Albany and work full-time on Apprenda.

When it comes to hiring, the Albany region produces a surprising amount of engineering talent. Rensselaer Polytechnic Institute, Sultan's and Schuller's alma mater, is frequently mentioned among the nation's top engineering schools. There is also SUNY Albany, where Ammerman got his diploma, Union College in Schenectady, Skidmore in Saratoga Springs and Clarkson in Potsdam. Syracuse University is two hours to the west. Many young programmers don't want to move across the country and fight the West Coast competition. Apprenda software engineer Eric Coonradt, 27, a graduate of SUNY Binghamton, grew up in the Albany suburb of East Greenbush. He wanted to stay close to home. "I have this weird regional pride," he says. "I like the idea that we're the underdogs."

Apprenda's newly hired HR head, Dean Iacovetti, who used to be its outside recruiter, says his best source is referrals from employees. The company offers $5,000 to staffers who make a successful connection to a new hire. Iacovetti also combs LinkedIn for prospects and poaches from other companies in the area like videogame maker Vicarious Visions and order-fulfillment company CommerceHub. Once he finds software talent he wants, he puts them through a five-stage hiring process, including phone interviews, a coding challenge and a personality test where they rate the importance of qualities like competitiveness and individual responsibility.

Since Apprenda opened shop, some other tech companies have moved in, most notably GlobalFoundries, a Milpitas, Calif.-based semiconductor maker owned by the government of Abu Dhabi, which has invested nearly $7 billion since 2009 to build a 222-acre campus in nearby Malta, N.Y. that includes a microchip-fabrication plant (the state gave it incentives worth $1.4 billion). So far the facility has created 2,200 tech jobs, boosting the region's reputation as a lure for talent. The Center for Economic Growth in Albany calls the area Tech Valley.

"At first some of our funders tried to get us to move to Silicon Valley," says Apprenda CEO Schuller. "But we're not going anywhere."

	PALO ALTO	**CLIFTON PARK**
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Office Rent	$30/SQ. FT.	$15/SQ. FT.
House	$4.6 MILLION (4,100 sq. ft.)	$725,000 (4,200 sq. ft.)
Property Taxes	$13,000/YEAR	$3,000/YEAR
Glass of Pinot Noir	$15	$8
Dinner For Two	$220	$109

GADGETS WE LOVE

PENCIL

FiftyThree, the software developer that enthralled iPad users in early 2012 when it debuted its beautiful, tactile "Paper" app, has now taken the next obvious step—this time into hardware—with Pencil, a Bluetooth-enabled stylus. Available in Walnut ($59.95) or Graphite ($49.95), Pencil can be as blunt or as fine a writing and drawing instrument as you require, and the eraser on its top end makes for quick mistake eradication the way you did it back in third grade. (Likewise, Paper's "Palm Rejection" capability means your hand won't make errant marks on your masterpieces as you go.) Battery power will last about a month between charges, and Pencil works as an ordinary stylus with any touch-sensitive device. It even stores nicely behind your ear.
—Brian Dawson


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Speed Demon

In less than a decade Charlie Chanaratsopon has built a $400 million-plus empire by selling cheap accessories in hundreds of stores. Is it time to slow down?

BY BRIAN SOLOMON

MICHAEL THAD CARTER FOR FORBES

"The 'in' place for suburban moms' day off": Charming Charlie's founder at one of the more recent locations.

Charlie Chanaratsopon is a young man in a very great hurry. "I hate downtime!" exclaims the 35-year-old Thai-American, chopping the air for emphasis. With his slicked-back hair and sleeves rolled up to the elbows, he's always ready to get down to business—even as he weaves frantically in and out of Houston traffic in his black Mercedes S550, eager to show a visitor one of his stores. "I'd probably be the worst lawyer, worst doctor, worst engineer on the planet because of my ADD-ness," says Chanaratsopon (cha-na-ROT-suh-pon).

No examples of botched cases, mangled surgeries or shoddy construction in his world. But there's an element of reckless endangerment in Chanaratsopon's rush to build a retail chain of accessories. In less than a decade the young founder and CEO of Charming Charlie has built a $400 million-plus (sales) mini-empire of watches, necklaces, scarves and handbags—284 stores in 40 states that FORBES values at $1 billion-plus. With an estimated net worth of $500 million he's careening toward billionaire status before his 40th birthday.

Since launching his first store in Houston nine years ago, Chanaratsopon hasn't slowed down a whit. He's now opening five stores a month, mimicking the model of fast-fashion giants Zara and H&M by selling attractive but cheaper versions of trendy items, sourced from Asia. Examples: $15 scarves, $9 sunglasses and $7 to $15 iPhone cases. Customers spend, on average, $30.

Is he making money? Chanaratsopon insists that all but one of his existing locations is profitable. The company's Ebitda is an estimated 15% or so—better than most apparel chains but far below luxury retailers like Coach and Michael Kors. Chanaratsopon refuses to comment on a key index—same-store sales growth—though it's probably safe to peg it at 10% (Francesca's, a clothing and accessories boutique with 360 outlets, does 10% to 15%). One former Charming Charlie buyer claims on her LinkedIn page that her division, apparel and accessories, expanded 26% across same stores in 2012.

Chanaratsopon says he's in a race to capitalize on a burgeoning trend. Accessories are a $9.2-billion-a-year business in the U.S. and expanding swiftly. As a category, paired with beauty and footwear retailers, it grew six times as fast as other mall-based apparel stores from 2007 to 2012, reports Credit Suisse. "We've spent years brute-forcing things across the finish line," says Chanaratsopon.

His drive runs deeper than business, supercharged as it is by a familiar immigrant success story. His maternal grandfather worked at a gas station in Houston to put his two daughters through college. As the first generation born in the U.S., Chanaratsopon always felt the heat to keep pushing. Perhaps a frightening childhood episode played a part, too. Burglars broke into his house at 2 a.m., tied up his family and forced his father to give up all their valuables. "They put me on the floor and started kicking me," he recalls. "They took the revolver out, shoved it in my throat, clicked it back. I'm 13, and all I remember thinking is, 'Well, I think I had a great 13 years.'"

His parents, who immigrated in 1974, had founded Silver Express, a sterling silver jewelry outfit that sourced production from Thailand and sold on consignment to the likes of J.C. Penney, Nordstrom, Target and Wal-Mart. Chanaratsopon grew up with the business, watching his parents work 18-hour days, overhearing dinner-table discussions of employee issues and traveling with them on sales calls and sourcing visits.

Some of that business education surely stuck, since Chanaratsopon ended up in the elementary school principal's office after charging first-grade classmates $1 a day to rent his Nintendo games. Profits fueled more game purchases and, hence, more rentals. Today, he says, "I'm still buying and selling—that's what I love."

There were detours. After graduating from Loyola Marymount in Los Angeles with a degree in finance, he became a real estate analyst at Sanwa Bank, then came back to Houston to help his dad find a new headquarters, persuading him to build rather than lease. Chanaratsopon supervised construction of an office building as well as an adjacent strip mall, which he quickly filled with tenants. That venture was so successful he started financing construction of other shopping centers in Houston's suburbs, building seven in two and a half years. "It wasn't being smart, it was kind of luck at the time," he muses. "The real estate market was so hot, and they were valuing it so high, whatever you built you could make so much refinancing and selling it."

But Chanaratsopon couldn't sit still. He dreamed of building 100 such malls and making more money by owning the store that anchored them all. But what kind? Apparel had too many players. Harwin Avenue, Houston's stretch of discount stores offering cheap imports in warehouse settings, offered inspiration. With leftover consignment returns from Silver Express as the merchandising backbone, the first Charming Charlie opened in October 2004.

It nearly died after the first month of desultory traffic. On a whim Chanaratsopon decided not to pull the plug and re-lease the space but to stay open another couple of weeks. Thanks to dumb luck, or a direct-mail drop, women

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RJ SANGOSTI / THE DENVER POST VIA GETTY IMAGES

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started queuing up outside the doors before Charming Charlie opened each morning. “It became the ‘in’ place for suburban moms’ day out,” recalls COO Steve Lovell, who joined the company after the third store. “Word spread like crazy. My wife heard about it from her friend before it ever opened near us.”

Chanaratsopon didn’t need much encouragement to start fast-tracking. “Own the store, own the complex—that was the idea,” he says. “That kind of turned when I realized you couldn’t physically build 100 shopping centers in six years. The stores were getting so much traction. It was a better business—a faster business.” Each cost, on average, $750,000 to open.

So he appended a grandiose plan to his business school application to Columbia in late 2005. Over the next two years he flew back and forth most weeks between New York City and Houston, where he not only wrote checks but also hung display racks and swept floors at new locations. Monday mornings he was back in Morningside Heights, soliciting advice from professors and speakers.

Slapping “the go button even faster” after he returned to Houston full-time in 2007, Chanaratsopon raised an undisclosed amount from private equity firm Hancock Park Associates, to double the store count from 7 to 14. (He and Hancock today control 95% of the company.) As the economy crumbled, Chanaratsopon squeezed desperate shopping mall operators for the best terms. “Landlords were freaking out,” he recalls. Charming Charlie more than doubled in size to 36 units in 2010, jumping to 96 in 2011. Its cheaper wares hit the mood of the times, offering what Hancock Park managing partner Mike Fourticq calls “the perfect shopping experience for a hurting economy.”

“I’d probably be the worst doctor, worst lawyer, worst engineer on the planet because of my ADD-ness,” says Charming Charlie’s founder.

But as the economy mends and the chain grows, Chanaratsopon pegs his overall performance at six out of ten. As he walks into store number five, it’s obviously in need of a face-lift. He shudders at the warehouse-style fluorescent lights, beige slat wall and water-stained ceiling panels—all part of a discount store vibe that “drives me nuts.” As the company fanned out across the country, it replaced those features with higher-quality fixtures but still organized merchandise according to color instead of type (walk out of teal and into orange).

The newer stores are smaller—averaging 5,300 square feet instead of 8,000—and assert more fashion confidence, leaving little to a wandering imagination. Push on the hot-pink doors and walk into walls of bold navy and white stripes and blaring pop music. The floor is packed with mannequins and flat-panel TVs to demonstrate hot looks using different Charming Charlie products. New trend tables show off the latest bubble necklaces and sand-blasted bracelets; cubby walls hawk higher-margin handbags.

One slight problem: The redesign isn’t making the stores more lucrative. Average sales are slightly lower than they are at the company’s traditional stores, though costs per square foot are up 25%. So why do it? Customer surveys suggest that store experience has dislodged low prices as the chief reason for shopping there. Put another way, Chanaratsopon is trying to develop Charming Charlie into a brand—one he hopes to export to the Middle East and South America (as well as to New York City’s Fifth Avenue next year). “Where I think we have an opportunity is 5,000 stores globally,” he blurts without hesitation.

You want to tell him to chill. “A few stores in Canada are a whole lot easier than in Europe and Asia,” says Laura Champine, retail analyst at Canaccord Genuity, the New York investment bank. “There’s still plenty of runway in the U.S.”

Chanaratsopon might also put more horsepower behind his e-commerce efforts. The first attempt, two years ago, was a painfully expensive mistake he refuses to quantify. “We didn’t really focus on it, didn’t complete the thought,” he says. Take two, launched in October, is a clean if unexciting website that isn’t yet mining a potentially rich vein of customer data.

If there are speed traps ahead, Chanaratsopon seems determined to ignore them. Says Bill Moreland, the new vice president of real estate, “It’s 100 miles per hour all the time around here.” F

FOUNDERS’ TOOLBOX

SERVER FAILURE

HAL MAYFORTH

Stumped for a startup idea? Consider this: The $1.3 trillion so-called “switching economy” of Americans who take their business elsewhere thanks to bad customer service. That total swells to $5.9 trillion worldwide, according to Accenture’s 2013 Global Consumer Pulse Survey. “The industries that used to be the hallmarks of loyalty are today the ones most under fire,” says Robert Wollan, a survey author. Among the culprits: retailers, banks and cable and phone providers.

Accenture applauds companies like Amazon that offer hyper-relevant product suggestions—one of five categories that keep customers the happiest. But smaller businesses are particularly adept at this, too, adjusting to social engagement and customer relationships faster than large companies. It doesn’t take much to stand out by delivering even slightly better service.

—Emily Inverso

In Good Company:

How Women Will Lead the Future of Business

By Lynthia Romney

Corporations and financial services firms seeking to manage the complexities and risks of today's global marketplace have a powerful resource at hand: women executives.

The need for leaders who can effectively drive profitable relationships among interrelated networks of customers and suppliers has never been greater. At the same time, successful leaders must be able to anticipate and outpace the myriad disruptions facing most industries across strategic, regulatory and operational realms.

To tackle these and other pressing business issues, corporations seeking strategic thinking, team building and bold initiative need look no further than their own diverse workforce. For companies with the vision and pragmatism to promote them to their senior ranks, women are today's competitive advantage.

"Companies value accountable leadership, which is a hallmark of today's effective managers," says Kimberly Weinrick, President of the Financial Women's Association of New York (FWA). "Successful firms and their boards are recognizing the strengths, talent and competitive benefits that diverse executives bring to a marketplace that is at once global, multicultural and highly dynamic."

FWA
FINANCIAL WOMEN'S ASSOCIATION

fwa.org

Founded in 1956, the FWA is dedicated to accelerating the advancement of women in the financial community across all industries. It offers women professionals access to the thought leadership, professional development and stakeholder networks essential to success.

In one such interaction with a global leader, JPMorgan Chase & Co. Chairman and CEO Jamie Dimon last autumn spoke with FWA members on topics ranging from critical issues in the financial markets to navigating one's career path.

"Getting to the top may not involve always going straight up a ladder—it can and should involve some lateral moves that expose you to new things so you can work with different people," Dimon said. "You have to pick jobs that are conducive to where you are during each stage in your life."

The FWA is a significant source of support for women intending to rise to the most senior positions in their organizations, and is a trusted partner to many premier financial and professional services firms enabling them to do so.

"We at the FWA have long believed in the power of the collaborative business model. Our FWA President's Circle members are able to provide their women—and men—with access to the leaders and innovators who are influencing business today," says Lily Klebanoff Blake, former FWA President, Chair of the FWA President's Circle and President of Klebanoff International, a strategic global business consultancy.

The FWA President's Circle members, corporations which provide support for the organization, can also deeply engage their women executives. The FWA offers events on key industry topics, networking with women role models, and opportunities for professional development, volunteerism and mentoring. On a more targeted level, the FWA organizes expert panels to provide advice to corporate members on priority issues ranging from global benchmarks for gender diversity to senior-level strategies for career advancement.

For example, a panel of female executives led by Ami Kaplan, Deputy Managing Partner—East Region, Deloitte & Touche LLP, discussed key leadership traits at a recent President's Circle Best Practices Breakfast. Critical conclusions from the discussion were for women to be visionary, think strategically and use their ecosystem of contacts and resources to build cohesive teams to manage the risks and complexities of today's marketplace.

Founded in 1956, the FWA is dedicated to accelerating the advancement of women in the financial community across all industries.

Women's Winning Characteristics

Recent in-depth analysis of leadership competencies confirms that women are eminently qualified to do so. In "A Study in Leadership: Women Do It Better Than Men," Zenger Folkman Inc., an authority in strengths-based leadership development, reported on a sampling of 7,280 male and female leaders from high-performing companies globally who completed its 360-degree assessment. The report, released in 2012, looked at the top 16 competencies that the firm's 30 years

Wells Fargo Advisors

Just as it has often led diversity efforts in the financial services industry, Wells Fargo Advisors supports its women Financial Advisors in meaningful and measurable ways.

To get a sense of how that plays out among the firm's scores of women advisors across the country, just ask Margaret "Peg" Moore, a founding member of the Stutzmann-Moore Wealth Management Group of Wells Fargo Advisors in Ann Arbor, Michigan.

Since joining the firm in 2006, Peg has increased the assets she manages for clients by 280%, moving from a solid, mid-level producer at her previous firm to a high-level business generator who holds the title of Managing Director - Investments. In addition, Peg has earned some of the firm's top distinctions and serves as a mentor to up-and-coming women advisors.

She credits her career boost, in part, to initiatives aimed specifically at women advisors, and says the firm provides an atmosphere of advocacy that is both tangible and impactful. As examples, she cites the Women's Summit, a premier annual event in which women advisors from around the country gather in a select location for two days of educational forums, A-list speakers, and catered social gatherings; and the Women's Business Exchange, which connects women advisors and leaders through regular conference calls and networking events.

Peg Moore, CFP®
Managing Director - Investments
Accredited Domestic Partnership Advisor℠

In addition to women's advocacy, Wells Fargo Advisors encourages all of its advisors to set and reach career milestones. As Peg describes it, the firm asks Financial Advisors to "design what they want to become," and then provides the training, growth, and development opportunities to make it happen. Thanks to the robust network of support, Peg has added three professional designations to her résumé of industry credentials.

"I choose to stay with Wells Fargo Advisors because of the environment," Peg explains. "It's not just about the numbers; it's about the nurture."

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"At every level, more women were rated by their peers, their bosses, their direct reports and their other associates as better overall leaders than their male counterparts," stated co-founders Jack Zenger, CEO, and Joseph Folkman, Ph.D., President.

The report found that "the competencies with the largest differences between males and females were taking initiative, practicing self-development, displaying high integrity and honesty, and driving for results." These traits map well onto leadership roles "strongly correlated to organizational success factors such as retaining talent, customer satisfaction, employee engagement and profitability," the report concluded.

They also apply to managing complexities and disruption—an area of focus for CEOs.

The 2012 IBM Global CEO Study of 1,709 CEOs, general managers and senior public sector leaders around the globe asked how CEOs were "responding to the complexity of increasingly interconnected organizations, markets, societies and governments." As part of that answer, the report identified top personal CEO success factors that included "customer obsession, inspirational leadership and leadership teaming."

The IBM report explained, "The pressure to innovate is not subsiding, and organizations are teaming to meet the challenge. Compared to their less successful peers, outperformers are partnering for innovation more aggressively. But they are also tackling more challenging and disruptive types of innovation. Instead of settling for simply creating new products or implementing more efficient operations, they're more likely to be moving into other industries or even inventing entirely new ones."

The FWA serves as a valuable resource for companies interested in mining the potential of women in their workforce.

Expanded Roles for Women Managing Risk

Given their broad skill sets, women are well positioned for this kind of leadership. Renetta Haas, Principal and National Lead for Business Risk Services, Deloitte & Touche LLP, points out that "every industry is recognizing that they have risks that need to be proactively managed, and this is opening up opportunities for women."

Haas notes that women can bring inventiveness and focus to anticipating and managing strategic risks—from pricing or delivery disruptions to industry consolidation. She sees new positions being created to address these risks and new opportunities for women to fill them.

"Women executives show that they can take a full-enterprise view and demonstrate transformational leadership," Haas says. "This opens another avenue for women to enter the C-suite."

The most direct way for companies to benefit from women's leadership potential is to promote them. On this, there is still considerable room for improvement: 24% of senior management of global corporations are women, according to the Grant Thornton International Business Report 2013; and women comprise only 4.4% of the CEOs of the largest U.S. corporations.

BNP Paribas

BNP Paribas is committed to promoting a diverse, inclusive and stimulating work environment; one where employees are treated with dignity and respect, and value is given to differences in thought, backgrounds, experiences and perspectives—as well as where the finest talent is attracted, retained, developed and empowered to succeed.

In nearly 80 countries, BNP Paribas benefits from the diverse perspectives of its employees and clients. Our North American Diversity Council and eight Business Networking Groups are award winning internally and externally. We received a SIFMA Diversity Award in the Emerging Leader category, and a perfect 100% score on the Human Rights Campaign Corporate Equality Index.

Jean-Yves Fillion
Chief Executive Officer
BNP Paribas North America CIB and IS

BNP Paribas proudly supports its women through its President's Circle membership in the FWA, which I have supported from its inception. We have supported the FWA by lending our global markets expertise, including the expertise of our female executive leaders, in Brazil, the United Arab Emirates and our home market of Europe.

fwa.org

Why increase these numbers? Studies have shown that including women in leadership, specifically on boards of directors, enhances share price performance. Among them is Credit Suisse's Gender Diversity and Corporate Performance Report of August 2012, which added that "evidence suggests that more balance on the board brings less volatility and more balance through the cycle."

The FWA: Delivering the Benefits of Diversity

"A diverse and inclusive culture generates innovative solutions," FWA's Weinrick says. "By engaging women and diverse professionals at all levels and opening the organization to a rich variety of viewpoints, a company is better prepared to manage the complexities of the marketplace and drive profitability for its shareholders."

The FWA serves as a valuable resource for companies interested in mining the potential of women in their workforce.

"The FWA's distinctive array of events and programs support women throughout the arc of their careers, with a crucial focus on high-potential women who are rising in their organizations," Klebanoff Blake points out.

"The FWA President's Circle companies are committed to retaining and promoting their female talent," she says. "We work with each of them to create an annual strategy that is customized to their business priorities and refreshed on an ongoing basis."

> **"A diverse and inclusive culture generates innovative solutions."**
>
> **Kimberly Weinrick, President, FWA**

For senior women executives, the FWA has also designed a special invitation-only initiative, the FWA Executive Leaders program, to provide a focused opportunity to network with peers and expand their business relationships.

Yet high-voltage visibility also serves to sustain senior women's careers, and the FWA Annual Dinner provides this venue when it honors the FWA Women of the Year, one each from the private and public sectors, before 500 professionals from the nation's most prominent financial institutions and corporations.

Consistent with the value shared by many women in giving back to the community and educating the next generation of leaders, the FWA offers robust mentoring and scholarship programs for students aspiring to college and graduate school and beyond. To date, these programs have helped more than 5,000 young professionals and students.

Global expertise is essential for executives seeking to advance, and each year the FWA takes a delegation to a country with key economic developments to meet with the senior-most leaders in the corporate and government arenas. This year the International Conference will take place in Germany.

End to end, the FWA cultivates characteristics of today's and tomorrow's leaders—bold initiative, innovative strategy, ongoing development and high-performance team building—in preparation for whatever complexities lie ahead.

Lynthia Romney is President of RomneyCom, a full-service communications firm positioning major corporations and national nonprofits for leadership visibility through powerful messaging and integrated platforms of media, authored content and speaking opportunities. She can be reached at ***lromney@romneycom.com****.*

Tapping Inspiration

Now in his fourth startup, Howard Lerman has an uncanny sense of timing. What's his secret?

BY J.J. COLAO

"This is crazy. Why are you doing this?": Yext cofounder Howard Lerman knows when to pounce, when to fold.

Dante had his Beatrice, and Keats, Fanny Brawne. Howard Lerman's muse? It appeared after he stepped onto a treadmill at a Manhattan Upper West Side gym seven years ago. "So I'm looking at Al Sharpton's Spandex butt, and I'm like, 'I don't want to look at that,'" recalls the 33-year-old CEO of Yext. "So I look out the window instead." Outside he spotted a gym salesman spinning a "Wheel of Savings" to lure pedestrians with free trials and discounts. "I walked out and said, 'This is crazy. Why are you doing this?'" The rep told him nobody read the Yellow Pages anymore, so he had to find some way. Inspiration struck. Less than a year later Lerman's GymTicket.com, a lead-generation service, had signed up 3,000 gyms around the country.

Epiphanies come in strange packages. The most successful entrepreneurs act on them—but also know when to let go. Lerman has been through that respiratory exercise three times. Dressed in black at his corner office near Madison Square Park, he's now deep into his fourth company, the result of abrupt, decisive shifts in strategy—the sort that transformed GymTicket.com into Yext via a strange and tortured path. Investors, who have bet $66 million on two incarnations of the business since 2006, haven't yet seen a dime. But with this latest iteration, Lerman is pretty sure he has it right.

Today his 250-person outfit sells cloud software that helps brick-and-mortar businesses manage online storefront data—addresses, phone numbers and business hours among them—to keep listings accurate while monitoring customer reviews and referral traffic from 46 websites, including Facebook, Yahoo and Yelp. They pay $500 per year for each location while massive enterprise customers like Citibank and FedEx get a discount. Just three years old, it should do $33 million in sales this year, with 70% gross margins, says Lerman. He's confident sales will double again in 2014.

Growing up in Vienna, Va., the son of a physician and a store manager at Eileen Fisher, Lerman went to a magnet high school that had a $1 million supercomputer. He rigged a phone line to his PC to access an online network of

local hackers. (Sean Parker grew up nearby and occasionally joined the chats.)

While at Duke he studied history, the easiest major he could find, and teamed up as a sophomore in 2000 with high school classmates Tom Dixon and Sean MacIsaac, now Yext's COO and CTO, to launch JustATip.com. Based on a whim—prank calls from high school days—the service let users send "tips" anonymously, e-mailing friends about, say, their offensive body odor or lack of rhythm. An intern at the White House at the time, Lerman says he "may or may not have used government computers to build it."

The gag caught fire on college campuses. Jon Stewart used the website on *The Daily Show* in 2001 and usage rocketed to a million visitors per month. But token revenue from banner ads barely made a dent in server bills, and the founders searched for an acquirer. Two deals fell through before Traffix, a publicly traded online marketer, bought the site for $150,000.

After "a couple of roaring keg parties," the trio launched Intwine, a consulting firm that specialized in Microsoft's .NET programming language. Within three years it grew to 30 consultants and $5 million in sales. It sold to Datran Media, a digital marketer, for $7 million in 2005.

Next up, GymTicket.com. It worked like this: Web surfers on the hunt for a gym found the site through ads and search engines, entered their Zip codes, then viewed a list of local gyms. When they called to sign up for a trial membership, GymTicket pocketed a fee. Lerman enlisted Brent Metz, a high school friend and IBM speech scientist, and Brian Distelburger, a colleague at Traffix, as cofounders. Sales jumped to $1 million within a year, and soon they expanded to nine more categories, including LocalVets.com and TVRepairman.com.

With the sites rolled into Yext, they developed transcription technology that recorded customer phone calls and charged clients based on keywords in conversations. For vets, "spay" might incur an $80 charge, "checkup" just $5. By 2009 the company was nearly profitable and approaching $20 million in sales, yet few had heard of it. Lerman and company did the rounds on Sand Hill Road, emerging with $25 million from Institutional Venture Partners.

Instead of folding up or searching for a sucker to buy the operation, Lerman decided to start an entirely new company within Yext.

Yet after just a couple months Lerman saw he was on the wrong path. "We f---ed up," he concedes. "We should have never raised that money." The model turned into a "quagmire," as clients disputed charges and tied up account managers. Growth slowed; managing ten websites grew untenable. Instead of folding up or searching for a sucker to buy the operation, Lerman decided to start an entirely new company within Yext.

In the spring of 2010 he grabbed three employees, appointed Metz de facto CEO of the old operation and holed up in a separate room. For years his customers had told him how hard it was to keep tabs on different online listings—until their clients griped about outdated addresses or business hours. When the cloud software debuted in January 2011, it was an immediate hit. Sales were $2.7 million in 2011, $14.2 million last year. The old business, meanwhile, known as "Felix," looked like deadweight.

At the suggestion of venture capitalist Ben Horowitz, who declined to invest in Yext, Lerman decided to spin out Felix, selling it to IAC's CityGrid Media for $30 million in April 2012. The proceeds went directly to Yext's balance sheet. Two months later Lerman raised a $27 million round, at a $270 million valuation, from existing investors, plus Marker and CrunchFund. (Lerman's worth: an estimated $50 million.)

Lerman is positioning Yext beyond local data. He talks of Starbucks managers' using it to post pictures and specials on each location's Facebook page. And when retailers start pinging in-store shoppers with geo-targeted ads, Yext might serve as the platform for managing such campaigns. Meantime, he can fish among the estimated 20 million storefronts in the U.S. and 50 million globally.

His current muse is his wife, Wendy. Just months ago he sported shoulder-length curls and a beard that ran untrimmed down his neck. "One day my wife was like, 'You're starting to look like a homeless guy,'" he says. Today, coiffed, he looks like tens of millions.

FOUNDERS' TOOLBOX

PUBLIC HEALTH

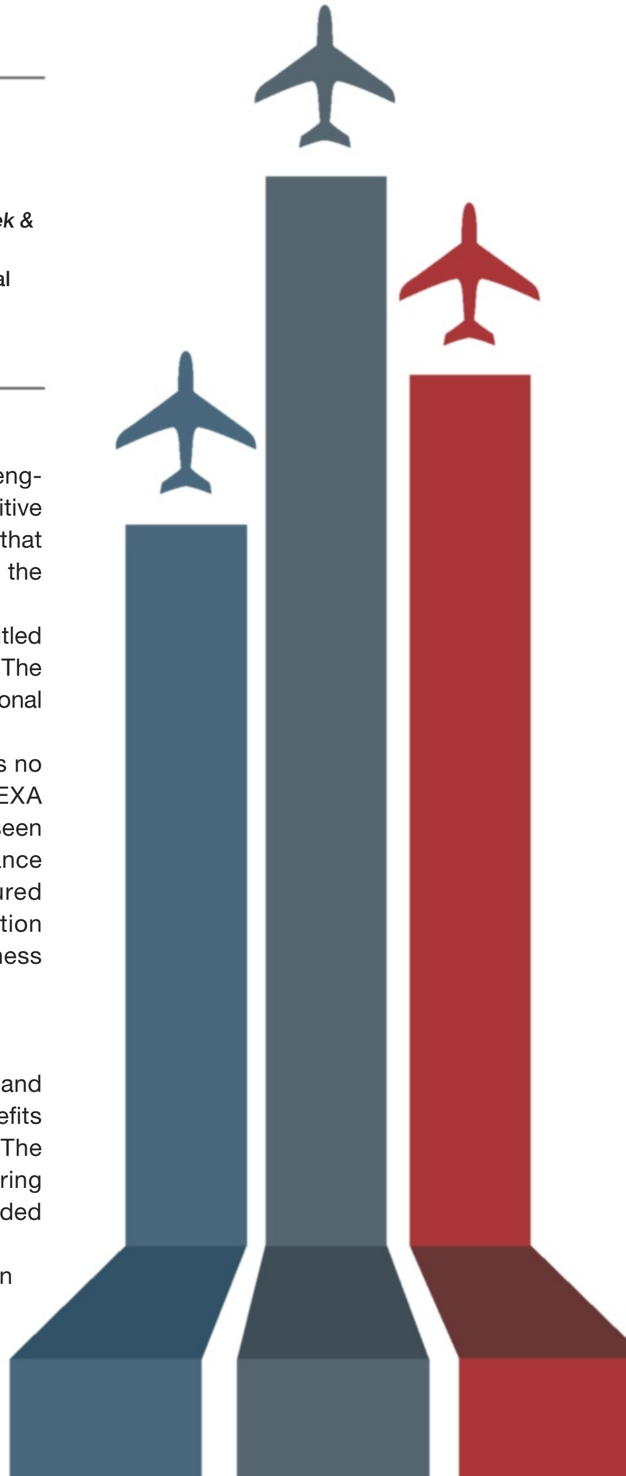
HAL MAYFORTH

It's been a great year for IPOs. Twitter stole the show, of course, raising nearly $2 billion. But others have starred, too. Tech's 41 offerings have pulled in $7.4 billion as of Nov. 20; the industry has topped the charts in number of deals four years running. But look as well at health care (50 issues, raising $8.4 billion), financial services (43; $9.9 billion) and energy (19; $9.2 billion). This isn't a return to Icarus-like 1999 and 2000, when more than 400 new issues took about $100 billion from investors each year. But by the end of 2013 "we will probably see 230 IPOs raising close to $50 billion," says Kathleen Smith, a principal at Renaissance Capital—the best year since ... 2000.
—Emily Inverso

Business Aircraft Acquisition + Financing Guide

Written by
TONY VELOCCI

Tony Velocci is the former editor-in-chief of *Aviation Week & Space Technology* magazine and was twice named Aerospace Journalist of the Year by the U.K.-based Royal Aeronautical Society. He is a member of the Board of Directors of the National Aeronautic Association.



Success in today's global, fast-paced economy is getting more challenging all the time, with companies on a never-ending quest for competitive advantage amid rising customer expectations. But here's an insight that management teams would be wise to consider: The best-run enterprises in the world are avid users of business aircraft.

Recent updates to a widely respected 2010 report by NEXA Advisors, entitled "Business Aviation—An Enterprise Value Perspective," confirmed as much. The study, perhaps the most comprehensive of its kind, had the support of the National Business Aviation Association (NBAA).

"The correlation between business aircraft use and business success is no coincidence," says Michael Dyment, founder and managing partner of NEXA Advisors. "Evidence of the value provided by business aircraft use can be seen in the remarkably consistent correlations between the aggregate performance of companies and industry sectors using business aircraft when measured against those which do not." Among the Global 2000, a Forbes compilation of leading companies, no less than 88% of the top 50 were users of business aircraft, he notes.

A Strong Business Case

Since 2007, managers have been especially challenged to sustain revenue and profit growth while maintaining healthy balance sheets. Here, too, the benefits of business aviation are measurable and significant, according to NEXA. The updated study examined the performance of the S&P 500 companies during and after the Great Recession, between 2007 and 2011. Key findings included the following:

- Business aviation users in 2011 represented 84% of the companies listed on the S&P 500 and accounted for 96% of total revenue.
- Of the companies added to the S&P 500 between 2007 and 2011, 74% use business aviation.

- A significant number of companies that dropped from the S&P 500 during the same period were non-users of business aviation.
- S&P 500-listed companies using business aviation mitigated revenue losses and recovered more quickly from the Great Recession than non-users.

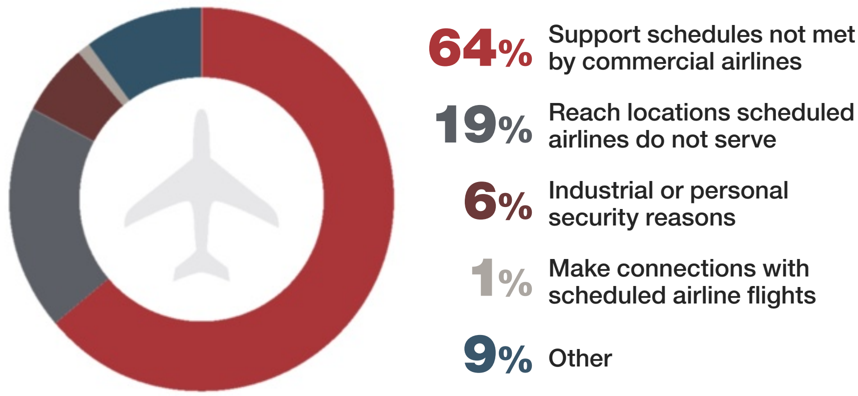
As more companies around the world have discovered the potential of business aviation to help them respond to market opportunities and capture value, the demand for business aircraft as a return-on-investment tool has expanded. According to NEXA, from 2008 to 2009, when the global recession was at its worst, annual GDP contracted on a worldwide basis by 0.6%. During the same period, the worldwide installed base of business jets and turboprops grew by 4.4%, according to the study.

In 2012, there were 19,258 fixed-wing jets and 13,762 turboprops operating around the world, for a total of 33,020 aircraft. That's up from 23,720 in 2004—a 39% increase. In North America, principally the U.S., business aviation has continued to expand, albeit at a slower pace since the Great Recession.

Between the wide range of innovative aircraft-acquisition programs and the availability of favorable financing—not to mention the numerous airplane models to fit every conceivable need—business aviation has never been more accessible. But that doesn't necessarily mean chartering, leasing or even purchasing a whole aircraft are the only choices.

Photo courtesy of NetJets

Reasons for Business Aircraft Use



Note: Total does not equal 100 due to rounding. Source: Harris Interactive Survey, 10/2009

Best of Both Worlds

An increasingly popular alternative is fractional ownership, which is designed to provide all of the benefits of whole aircraft ownership at a fraction of the cost. Owners get guaranteed access to an airplane on short notice; they are able to fly where they want to go, when they want to go; and they avoid the burden of management responsibilities.

The undisputed leader in fractional ownership is NetJets, a Berkshire Hathaway company. NetJets pioneered the concept of fractional ownership in the mid-1980s. A NetJets entry-level share provides 50 annual flight hours, and customers can purchase additional shares in 25-hour increments, up to 800 flight hours annually.

For customers who need fewer than 50 flight hours a year but still want the advantages of private aviation, there is the NetJets Marquis Card. "It allows prospects to realize the benefits of fractional ownership before signing up," says Adam Johnson, senior vice president of global sales, marketing and service. The Marquis Card is sold in one-year, 25-hour increments. Since it requires no long-term commitment, the program is especially popular with companies that already own a business aircraft and need supplemental airlift capacity. They simply prepay for the 25 hours of occupied flight time for the specific aircraft type selected. Nearly 4,000 individuals and companies participate in the Marquis Card program.

There are nearly as many NetJets fractional owners—a group that includes some of the world's most admired companies and numerous prominent individuals in business, sports and entertainment. Becoming a NetJets fractional owner involves a one-time purchase of a specific serial-numbered aircraft. The size of the share and the aircraft type dictate the price. There also is a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monthly management fee, plus a cost to cover the hours that the owner actually occupies his aircraft, depending on the type, and fees to cover such necessities as hangaring.

The minimum commitment is 24 to 36 months, again depending on the aircraft type. Direct financing is available. From a tax and legal standpoint, a NetJets share is similar to purchasing a whole aircraft: owners get all the financial benefits of a capital-equipment acquisition. As an added benefit, customers can exchange the aircraft type in which they have a fractional ownership for any other airplane type in NetJets' U.S. fleet that may better satisfy a specific travel requirement.

NetJets recently introduced the Supplemental Lift Assurance program, with guaranteed access to the entire NetJets fleet worldwide, based on comparable cockpit configuration, in as little as four hours. Here, too, there is no long-term commitment and no obligation to commit to a specific aircraft type or a specific number of flight hours.

> "The correlation between business aircraft use and business success is no coincidence."
>
> —MICHAEL DYMENT
> NEXA ADVISORS

As the world's largest fractional ownership provider, NetJets has flown more hours and has more customers than all other fractional aircraft companies combined. By any measure, its fleet is huge—more than 700 aircraft in every category of size, range and cabin features—and it manages more than 300,000 flights annually to more than 170 countries.

As unrivaled as NetJets is currently, the company plans to renew its fleet over the next ten years. On order are 670 next-generation aircraft, customized from design through product development. The initiative, called the NetJets Signature Series, will include advanced cockpit and cabin technologies to ensure maximum safety, reliability and operating efficiency, as well as advanced in-flight entertainment systems. NetJets recently took delivery of the first of these new models: the Global 6000 and the Embraer Phenom 300.

The Signature Series was conceived during the height of the Great Recession in 2009, when the pace of industry activity dramatically slowed. NetJets reached out to owners and pilots to ask how their needs were likely to evolve. "We spent a lot of time looking at avionics and cabin comfort, including noise attenuation," says Johnson.

88%
OF THE TOP 50 COMPANIES ON THE FORBES GLOBAL 2000 ARE BUSINESS AIRCRAFT USERS.
Source: NEXA Advisors

NetJets is attracting growing interest from whole-aircraft owners who no longer want the hassle of flight planning, crewing and training, and who would prefer to hand off all of these responsibilities. "We are receiving a lot of calls from individuals and businesses that want to exit whole ownership," says Johnson. The solution: a service in which NetJets can leverage its network of dealers to broker the sale of aircraft and help customers make the transition. "Being a part of Berkshire Hathaway, we have the financial wherewithal to provide this level of support."

High Flier

Regardless of how an individual or company chooses to access business aviation—charter, fractional or a traditional purchase—no manufacturer offers more options than Embraer. It produces seven different models, ranging from the entry-level, four-to-six-passenger Phenom 100 with a range of up to 1,356 statute miles, to the Lineage 1000, an ultra-large business jet that can whisk up to 19 passengers in stylish comfort at more than 540 miles an hour, or up to eight passengers some 4,600 nautical miles.

The Phenom 300, part of the NetJets Signature Series, can transport up to six passengers at 520 miles per hour. This is classified as high-speed cruise. With its range of 2,268 statute miles, Boston to Miami would fit well within a typical Phenom 300 flight profile.

The aircraft has proven ideal for Wayne Gorsek, a Las Vegas-based

Photo courtesy of Jessica Ambats

entrepreneur who founded DrVita, a nutritional health company, in 2011. He chose the Phenom 300 after checking out two competing models of similar cabin size. "Nothing else came close, so it was simply a better value all around," says Gorsek, who first owned a Phenom 100. "I liked the fact that it was a clean-sheet design, and the airplane's endurance and safety features were unrivaled." Gorsek uses his Phenom 300 primarily to help him manage the business as it continues to mature.

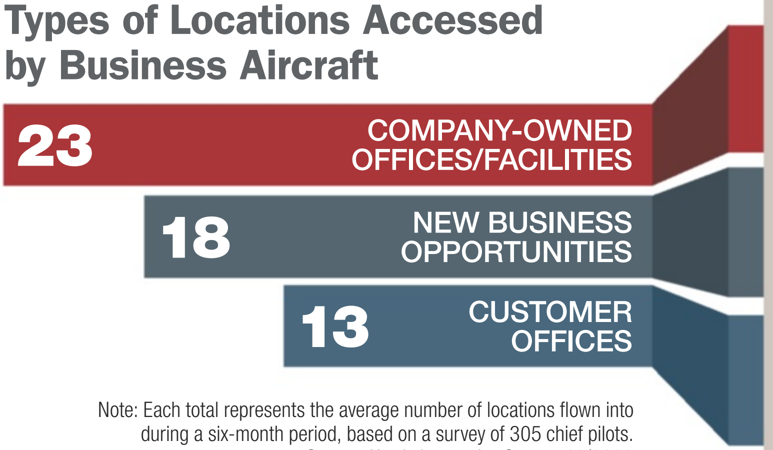
Like most business aviation users, Gorsek is a stickler for productivity, and therefore is thrilled that he can avoid commercial aviation for most business travel. "How can you trust commercial carriers nowadays to get you to important meetings on time or accommodate unplanned changes in your work schedule? With my Phenom 300, I have all the flexibility I need to be as productive as a start-up demands."

With its worldwide reputation for innovation in both commercial and business aviation, Embraer recently announced enhancements to two other aircraft in its product line that already had set standards for performance.

The Legacy 500, the world's first full fly-by-wire midsize business jet, features a six-foot-tall flat-floor cabin—even wider than that of some more expensive aircraft in the super-midsize category. Fly-by-wire offers a smoother ride for passengers because the flight control computers maintain aircraft path, adjusting for environmental changes much quicker and more precisely than humans can react. Eight club seats may be berthed into four beds for complete rest at a cabin altitude no greater than 6,000 ft. As for the Legacy 450, its range was increased to 2,500 nautical miles—200 farther than its initial specifications. The jet shares the same cabin cross-section as the Legacy 500, allowing four club seats to be berthed into two beds.

The enhancements get a thumbs-up from Embraer Executive Jets. "The Legacy 450 will be the best-in-class mid-light executive jet," says Ernest Edwards, president, Embraer Executive Jets. "We never stop listening to our customers' input. And, thanks to their invaluable feedback and our commitment to deliver distinctive business aircraft, both the Legacy 450 and the Legacy 500 will offer an above-premium travel experience." ■

Types of Locations Accessed by Business Aircraft



Note: Each total represents the average number of locations flown into during a six-month period, based on a survey of 305 chief pilots.
Source: Harris Interactive Survey, 10/2009

FLIGHT LOG

Building a new company from the ground up is hard enough, but when customers and suppliers are spread across the country, the job of running the business is that much more demanding. Such is the challenge for entrepreneur Wayne Gorsek, who launched a nutritional health company in 2011.

The company, DrVita, headquartered in Las Vegas, is growing even faster than a similar enterprise he started in 1994, Vitacost, which he built into the world's largest vitamin retailer. In both cases, Gorsek credits business aviation as one of the keys to his success.

To meet with DrVita suppliers and vendors across North America, Gorsek relies primarily on his Embraer Phenom 300. Soon after earning his single-pilot rating in the aircraft in 2011, he took delivery at the Embraer factory in Brazil.

Gorsek thoroughly enjoyed flying his Phenom 100, which he acquired in 2009, and has found the larger and faster model to be even more versatile. With a top speed of 450 kts and more than 15% greater fuel efficiency than other business jets in its size category—not to mention the ability to fly above virtually any unfavorable weather—it allows Gorsek and his management team to cover a lot of territory in a relatively short time.

He and his vice president of sales and marketing recently flew from Las Vegas to Arkansas to meet with Costco and Sam's Club buyers, and then on to Seattle for a similar conference with drugstore.com executives—all in a single day. "The same travel and business agenda would have taken me three days to complete flying commercially," he says. "Our meeting with Costco went three times longer than we originally planned, but that was no problem because we had the flexibility we needed. I'm able to conduct business on my schedule, not commercial aviation's, and that makes all the difference in the world."

WAYNE GORSEK
DrVita

THE 2014 INVESTMENT GUIDE

EDITED BY JANET NOVACK AND MATT SCHIFRIN

The stock market gods were beneficent in 2013, but economic instability and pitifully low yields mean building wealth in 2014 will be challenging. In this special 2014 Investment Guide we've distilled sophisticated investing advice to its actionable essence. We've got nine formulas for answering such key problems as "How much will college cost?" and 365 pithy but pertinent tips to help you build your nest egg. (Visit Forbes.com/investment-guide for in-depth versions of all 365.) We also show you how to capitalize on Asia's consumer-spending tsunami, where the best fracking-boom returns can be made, how to profit from convertible bond deals and how to get the biggest tax deduction for your charitable dollars.

Additionally we tackle hotly debated ideas like whether art is worth the investment and whether the 401(k) business is in need of the overhaul Nobel laureate Robert Merton has devised for it. In the interest of investor protection and salvation we profile one young money man's crusade to protect commodities investors; how a Forbes 400 member is breathing new life into underwater mortgages; and how another dedicated his NFL football fortune to helping the smartest poor kids. Finally we offer the tale of how one family is wrestling with its intellectual property inheritance built around a fearless and enchanting little girl named Madeline.

Barbara Bemelmans can't part with her father's belongings and controls the character he created.

#1

Sir John Templeton: "Invest at the point of maximum pessimism."

#2

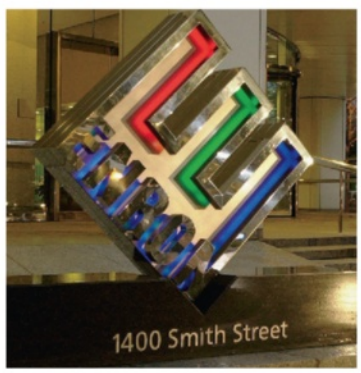
Don't mistake a low P/E ratio for a value stock.

#3

Benjamin Graham: "Patience is the fund investor's single most powerful ally."

#4

Let your attorneys ride shotgun, but not in the driver's seat.



#5

Remember Enron; reduce your employer's company stock in your 401(k).

TEMPLETON: BRIAN SMITH/CORBIS; BETTMANN/CORBIS; ENRON: PAT SULLIVAN/AP

#6

Warren Buffett: "Rule No. 1 is never lose money. Rule No. 2 is never forget Rule No. 1!"

#7

Fund a Roth IRA if you're eligible; your money grows tax free for retirement, and in an emergency you can take your contribution back without penalty.

#8

Barry Sternlicht: Pay attention to the big themes, because they are what will help you earn ten times your money.

#9

Back a friend or relative's startup with a convertible loan, so you share in the upside.

#10

Use commodities as a hedge against inflation.

#11

Raise the deductibles on your auto and home insurance.

#12

Form family limited partnerships to transfer assets at a tax discount.

#13

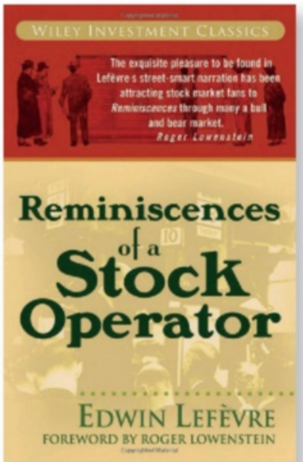
Beat death taxes in 20 states by making big gifts while you're alive.

#14

For simple federal tax-free wealth transfer, make $14,000 annual gifts to children and grandchildren. It won't cut into your $5.25 million lifetime exemption from gift and estate taxes.

#15

Get tax advice before settling a lawsuit.



#16

Read Reminiscences of a Stock Operator *by Edwin LeFèvre.*

#17

To keep peace with both relatives and the IRS, document all family loans.

#18

Peter Lynch: "Never invest in any idea you can't illustrate with a crayon."

#19

View collecting as a hobby first and investment second; psychic returns can make up for a lower average return than in stocks.

#20

Add a personal items floater to your homeowner's insurance to cover collectibles.

#21

When the bear charges, stand your ground.

#22

For protection from inflation and currency devaluation, buy the "gold you can eat"—farmland.

#23

Know your risk tolerance. Pick an asset allocation that lets you sleep at night, so you won't panic and sell stocks at the bottom.

#24

Don't keep too much in cash equivalents—over time, this "safe" investment barely keeps up with inflation.

#25

After setting an asset allocation, rebalance yearly; it forces you to take profits when stocks have surged and to buy more shares when they're cheap.

#26

Benjamin Graham: "Adopt simple rules and stick to them."

#27

Buy Bitcoin as a speculation or political statement, not a hedge.

#28

Be a tax-smart investor. Hold taxable bonds in a 401(k) or IRA. Put individual stocks in taxable accounts so you can sell losers to harvest tax losses.

#29

Pay attention to the IRS' wash sale rule when harvesting capital losses.

#30

Don't invest in a hedge fund unless its audited results are reported in compliance with Global Investment Performance Standards.

#31

Build an emergency fund outside your 401(k).

#32

For the biggest tax break when donating collectibles to charity, make sure they'll be displayed and not sold.

#33

Put alternative investments like real estate (but never collectibles) in your IRA.

BUFFETT: JACK WELCH; STERNLICHT: SIMON DAWSON/BLOOMBERG; LYNCH: BRIAN SNYDER/REUTERS/LANDOV; BITCOIN: TOMOHIRO OHSUMI/BLOOMBERG; BEAR: DARWIN WIGGETT/GETTY IMAGES; REAL ESTATE: GETTY IMAGES

Madeline in stir: Rather than part with it, Barbara Bemelmans keeps much of her dad's art in storage.

MADELINE AND THE FAMILY BUSINESS

The adventures of a Parisian schoolgirl have enchanted generations. Now she's imperiled by a lack of planning.

BY DEBORAH L. JACOBS

WALTER SMITH FOR FORBES

Ludwig Bemelmans, the Austrian-born American writer and artist, had no retirement savings but used to tell his wife, "Madeline will be our Social Security." When he died of pancreatic cancer at the age of 64 in 1962, his estate was valued at only $200,000.

Today Bemelmans' legacy has evolved into a family business worth millions, and as he predicted, it all revolves around a valuable piece of intellectual property named Madeline—that fearless, independent Parisian schoolgirl he created (although his descendants talk about her as if she were real). In six books, starting with the original *Madeline* published in 1939, she has an appendectomy, gets lost at the circus and nearly drowns in the Seine.

Madeline books have sold more than 13 million copies. Yet her recent perils highlight the challenges of protecting and building on an intellectual property inheritance. Unlike other famous literary legacies mined to huge economic advantage after the author's death—for example, those of Dr. Seuss and Agatha Christie—the Madeline brand has only partially tapped its potential. Now her future is clouded by a lack of succession planning.

Artistic talent skipped a generation from Ludwig Bemelmans to his youngest grandson, John Bemelmans Marciano, 43, born eight years after his death. Marciano has written and illustrated eight Madeline books—the latest, *Madeline and the Old House in Paris,* published in October.

But Marciano hasn't inherited the keys to the kingdom. Those are still held by his mother, Barbara Bemelmans, 77, the late artist's only child. Ludwig Bemelmans left the copyrights to Madeline, 11 other children's books and about 20 adult books, as well as all his paintings and drawings, in equal shares to Barbara and to his wife, Madeleine. (He named Madeline for his wife but altered the spelling for a better rhyme.) Barbara has been in sole charge since her mother died in 2004. Despite demand for Ludwig's artwork, Barbara hasn't sold anything in recent memory and stores hundreds of paintings and drawings at Crozier Fine Arts, a New York storage facility.

"They're good stewards to the extent that they look after what they have" but have been leery of taking the franchise in new and potentially lucrative directions, says Jane Bayard Curley, curator of a Bemelmans exhibit scheduled to open in July at the New-York Historical Society. Both John Marciano and his mother have been unreceptive to e-books, for example. And they've done very little to develop Madeline.com—even after spending more than $10,000 during the late 1990s to buy the domain name from a cybersquatter who threatened to sell it to a porn site.

At times, Barbara acknowledges, she has found the burden of protecting her father's legacy overwhelming. "If my father had left me a shoe factory, and sometimes I wish he had, that would be simpler," she wrote in an e-mail to FORBES.

Today the center of operations for Ludwig Bemelmans LLC is a 69-acre New Jersey horse farm where Barbara and her ex-husband gave riding lessons, held horse shows and ran a summer day camp while raising their three sons. She still lives in a 19th-century farmhouse with two poodles and rents out the huge stable where she keeps her 12 miniature horses.

Nearby is a two-story building, once a general store, that Barbara also owns. She has filled its capacious downstairs with many of the contents of the Gramercy Park apartment where her father was living when he died 51 years ago. The arrangement gives the impression that Ludwig Bemelmans has just stepped out, with jars of paint brushes, his Olivetti typewriter, tubes of oil paints and a watercolor palette scattered around. On a table are stacks of institutional china: demitasse cups from the Ritz-Carlton Hotel in New York (closed in 1951), where Bemelmans worked before he became a writer; dinner plates from the Carlyle Hotel, where he once lived; and more plates, from Lüchow's, a famous German restaurant (it closed in 1986) in

#34

Burton Malkiel: "All index funds are not created equal. Some have unconscionably high expenses."

#35

Keep an eye on—but don't obsess over—mutual fund fees and expenses.

#36

Even committed indexers should use actively managed funds to buy municipal and high-yield bonds and value stocks.

#37

Yield is nice, but total return is the metric that matters.

#38

Gold is overrated as an inflation hedge—historically, its price moves are unrelated to inflation.

#39

For inflation protection, buy floating-rate corporate bonds.

#40

Don't let the mood swings of Mr. Market coax you into speculating.

#41

Beware affinity fraud; find God, not hot investments, at your church, synagogue or mosque.

New York that he frequented.

It all sets the scene for Barbara Bemelmans' show-and-tell about "Poppy," as she refers to her dad. The family moved 17 times while Barbara was growing up. Ludwig Bemelmans roamed the world, mingling with the rich and famous: Armand Hammer, Greta Garbo, Princess Margaret and Aristotle Onassis. Often Barbara Bemelmans traveled with her bon vivant father, meeting Dorothy Parker and Ernest Hemingway, and lunching with him at the iconic New York restaurant 21. When her dad died, "I realized that I would never get a good table at 21 again," she quips.

Where Barbara can't part with anything, Poppy was extravagant. "I never got the feeling that we were poor, but I often got the feeling that we were broke," she recalls. As Ludwig wrote in one undated letter to his daughter: "I consider money a fluid and that it runs through my pockets like a sieve."

Ludwig's many letters, along with notes and sketches—on napkins, hotel stationery, the backs of menus and inside of matchbook covers—were a valuable resource for grandson John Marciano when he took up the family franchise after studying art history and studio art at Columbia College and working as a newspaper reporter and editor.

In 1999 John published a biography of his granddad, *Bemelmans: The Life and Art of Madeline's Creator*, and his first Madeline book, *Madeline in America and Other Holiday Tales*, based on a mock-up for a book in his grandfather's papers.

He spent a year studying and practicing his grandfather's illustration methods and the cadence of his rhymes before venturing out with his own Madeline stories. The first of these, *Madeline Says Merci: The Always-Be-Polite Book* (2001), was his most successful, selling 60,000 copies. Others have not been as well received. "The joy and brio of the original books

Never poor but often broke: Ludwig Bemelmans with wife Madeleine and daughter Barbara, circa 1942.

go missing," panned *Publishers Weekly*, reviewing *Madeline and the Cats of Rome* (2008).

Marciano makes no apologies. "I want my books to sit comfortably on the shelf alongside my grandfather's books," he says, adding it's analogous to comic strip characters who "are reinvented and reimagined." For example, Ludwig Bemelmans corresponded for more than six months, starting in late 1961, with Jacqueline Kennedy, then First Lady, about collaborating on a book that he wanted to call *Madeline Visits Caroline*. The project was cut short by his death in October 1962. But Marciano turned the idea into *Madeline at the White House* (2011), modeling the President's daughter after his own little girl, Galatea, now 4.

Still, the bigger issue isn't creative but legal: Doing a sequel to a book using the same character requires permission of the copyright owner, says Andrew Boose, a lawyer with Davis Wright Tremaine in New York. John Marciano has a friendly arrangement with his mother—he owns the copyright to the text and art in the Madeline books he has produced; she gets royalties from her father's books. But without a formal

TOP: CONDÉ NAST ARCHIVE/CORBIS; MALKIEL: PETER FOLEY/BLOOMBERG; TEMPLETON: ANN STATES/REA/REDUX; GLOBE: LEONELLO CALVETTI/STOCKTREK IMAGE

#42

Sir John Templeton: "The four most dangerous words in investing are: 'this time it's different.'"

#43

Don't put more than you can afford to lose into a crowdfunded deal; startups are always risky, and the new JOBS Act reduces both paperwork and investor protection.

#44

Don't underrate the importance of liquidity.

#45

Use Quicken or a Web service to track all your finances and see your big picture.

#46

Use different passwords for each of your online financial accounts; add optional security questions whose answers can't be found in your Facebook or LinkedIn profiles.

#47

Write down your passwords and hide them; tell one person where they are.

#48

Don't fight demographics—allocate a portion of your portfolio to health care and biotech stocks.

#49

Diversify globally to boost your portfolio's risk-adjusted performance.

license, Boose says, Marciano could lose the exclusive right to do sequels when his mother dies, assuming she leaves the copyright in equal shares to her three sons. (Fortunately Marciano has got plenty else going on besides Madeline; his *The Nine Lives of Alexander Baddenfield*, a darkly humorous midgrade reader, was published in October, and he's negotiating a 13-book deal for his own series.)

But copyright is just one of many tangled issues swirling around Madeline. Neither of John's older brothers is actively involved in the family business. Paul, 47, gives corporate workshops. Paul's twin, James, a retired entrepreneur, owns the Madeline website but says he and his mother have "never been able to get on the same page" about what to do with it.

So Barbara Bemelmans faces a thorny issue that confronts many parents with family businesses in which only one child is actively involved: whether to divide assets equally among children or in some other way that might better ensure continuation of the family business. "I don't know what to do, so I don't do anything," she admits.

Another continuing dilemma has been figuring out what her father would have wanted. After Ludwig's death Barbara and her mother turned down a lucrative deal from Disney. Their lawyers and accountants advised it could bring financial security to the family, but mother and daughter believed Ludwig personally disliked Walt Disney.

As part of a movie deal, in the early 1990s the women signed a contract that included Madeline product-licensing rights. The producers sold those rights to a Disney subsidiary, DIC Entertainment, which mass-marketed Madeline products, from dolls to home furnishings. Mother and daughter discovered, to their dismay, that they had turned over licensing rights in perpetuity and had no right to approve or disapprove specific items. They were each earning

#50

Benjamin Graham: "Speculation is neither illegal, immoral nor (for most people) fattening to the pocketbook."

#51

Cash in on companies with stealth dividends—meaning stock buybacks.

#52

Diversify, but don't overdo it.

#53

Set investing rules for yourself that block impulsive decisions.

#54

Look beneath a fund's name, with Morningstar's Style Box and X-ray.

#55

Use software to track your asset allocation.

#56

Ask for a "brokerage window" in your 401(k)—an opening that allows you to invest in any mutual fund and even individual stocks.

#57

Bond laddering is good, but diversifying your income investments is important, too.

#58

Treasury Inflation-Protected Securities (TIPS) offer protection from inflation—not from rising interest rates.

$100,000 to $150,000 a year from the products but were appalled with their quality.

During this 17-year relationship they spent four years fighting to get back the licensing rights. The contract with DIC required arbitration in Los Angeles. Barbara ran up $1 million in legal fees, exhausting her ready cash, and even took a $200,000 equity loan on the farm to cover added costs. Finally, in a 2008 settlement, she got back the licensing rights and enough money to cover her legal expenses.

These days a former DIC employee runs the licensing program for the family, with these marching orders from Barbara: "Making money is secondary to maintaining the integrity of the character." Barbara has definite ideas about what Madeline would not wear (no pink and no ruffled socks, for example), and John Marciano, too, must approve all the products.

They now have deals with a dozen U.S. companies plus others in Japan, each of which produces a different Madeline-related product—everything from puzzles and pajamas to costumes and party goods.

In this role, too, John Marciano's financial arrangements with his mom are surprisingly informal. She sends him checks, he says. Without a written contract describing his services and compensation, there's a risk that the Internal Revenue Service could characterize those payments as gifts from his mother, which could count against her $5.25 million lifetime exemption from estate and gift tax, lawyers say.

Equally surprising, given Barbara's protection of Madeline's image, is that the family has apparently not registered the trademark to the name Madeline or the name along with an illustration of the character, says Edward H. Rosenthal, a lawyer with Frankfurt Kurnit Klein & Selz in New York. (He checked, we checked, and the family did not respond to

Selling sequels: John Bemelmans Marciano with his latest book based on his granddad's heroine, Madeline.

FORBES' request for the registration or serial number.) Here's why that matters: Ludwig Bemelmans' Madeline books will go into the public domain when the copyrights expire starting in 2034, leaving anyone free to publish them. But a trademark can last forever. By registering the trademark for books and other printed materials, for whatever goods the limited liability company is licensing, and by getting international trademark protection, the family could prevent others from making a movie or products, based on Ludwig Bemelmans' stories, long after the books' copyrights have expired. Without the trademark the family is left to rely on so-called common-law trademark rights, based on their being the first to use the name or illustration for certain purposes. That's weaker protection in the U.S. and no protection in countries where the trademark belongs to whomever files the application first.

Lest anyone doubt the importance of trademarks, the Carlyle Hotel has trademarked "Bemelmans Bar" to describe the cocktail lounge where the artist painted murals of New York scenes in exchange for 18 months' free

TOP: TAYLOR HILL/GETTY IMAGES; BOGLE: TAYLOR HILL/GETTY IMAGES; FARM: WALTER ZERLA/GETTY IMAGES

#59

John Bogle: "Time is your friend. Impulse is your enemy."

#60

Use salary increases to boost contributions to your 401(k).

#62

Defy conventional wisdom and increase your stock allocation after retirement.

#63

To make money in small-cap stocks, look for novel business methods and niches, not the next blockbuster drug.

#64

Don't abdicate investment decisions to your spouse.

#65

Be suspicious—and investigate further—when a corporation changes its auditors.

Microsoft
Marketing
Celso Guiotoko
Chief Information Officer
Nissan
NISSAN
Dealer Network
Microsoft Dynamics
Customer Care
Connected teams, an intuitive CRM, happy drivers.
When Nissan was looking to deliver the best possible experience at every step of the ownership cycle, they chose a Microsoft Dynamics CRM solution. With one unified customer view, Nissan's teams will be able to close sales quicker, resolve issues more efficiently, anticipate needs before they arise and, ultimately, do one simple thing — make happy.
Microsoft Dynamics
crm.dynamics.com

#66

Carry a $2 million or bigger umbrella insurance policy to protect your wealth from liability suits.

#67

Warren Buffett: "Be fearful when others are greedy, and be greedy when others are fearful."

#68

Invest to meet goals, not to beat indexes.

#69

Clarify your own objectives by writing an Investment Policy Statement.

#70

When you get restricted stock in a startup, make an 83(b) election; if the company takes off, you'll save big on taxes.

#71

Consider your marriage tax penalty (or bonus) before setting a wedding date.

#72

Aim to have five times your salary in your 401(k) and IRAs by age 55 and eight times before you retire.

#73

Dan Ariely: "If you can't save enough money, be really nice to your kids."

#74

Put peer-to-peer loans in your portfolio using sites like LendingClub.com for monthly cash flow and yields of from 7% to 9%.

#75

Peter Lynch: "Go for a business that any idiot can run—because sooner or later, any idiot is probably going to run it."

rent for himself and his family. The elegant bar is the setting for, among other events, Madeline teas held during November and December.

Just as valuable as the books—if not more—is Barbara's cache of her dad's art. For example, a set of 15 of his murals adapted from the first three *Madeline* books, which he painted in 1953 for the playroom of the Aristotle Onassis yacht *The Christina*, fetched $553,875 at a Sotheby's auction in 1999. Charles Royce, whose money-management company is known for its small-cap mutual funds, bought two of these panels in a private sale, plus another six murals right off the walls of Bemelmans' former Paris bistro, La Colombe, and installed them at the Ocean House, his hotel in Watch Hill, R.I.

One of Royce's latest trophies, acquired last spring for $75,000, is a watercolor-and-crayon drawing from the original Madeline book, showing Miss Clavel and the girls in the Tuileries Gardens right before they go to visit Madeline in the hospital, where she's recovering from her appendectomy. Royce bought the drawing from filmmaker Gavrik Losey, whose mother, fashion designer Elizabeth Hawes, bought it to commemorate his birth in 1938. Despite that sentimental value, Losey sold it, he says, to help pay for the college education of his youngest child.

The three Marciano brothers, too, grew up with Bemelmans' paintings on the walls. At night their mother used to lift them up to say "good night" to the characters that Poppy had created, James recalls. Yet neither he nor his brothers own any of these paintings.

With so much family-owned art off the market in storage, it's hard to say how much it's worth. Even Bemelmans' small sketches now command thousands at auction. The highest price paid for his work, according to Askart.com, was $137,500 for the cover painting of the first Madeline book. But that was back in 1999.

James Marciano would like to own one of his grandfather's paintings but has "no assumptions about inheriting anything," he says. "But it would be nice to have some sort of a plan for the continuation of Madeline." These are topics his mother feels most comfortable talking about with John, he observes. "My brother Paul and I haven't been invited to the table for those conversations." John declined to discuss the subject.

Barbara is leaving a lot to chance, says Barbara Shiers, an estate-planning lawyer with Frankfurt Kurnit Klein & Selz in New York. Without a will, under state law her three sons will inherit Bemelmans LLC in equal shares. A variety of planning techniques could avoid potential disputes among her children and grandchildren, make sure the company is run according to her wishes after she passes away and save estate taxes.

What's also missing is a structure that her heirs could use to run the business, including a mechanism for decision making, Rosenthal notes. Without it the sons could disagree about everything from licensing movie rights to renegotiating old contracts with Penguin.

In his latest book, *Madeline and the Old House in Paris*, John Marciano brings back Lord Cucuface—the villainous head of the boarding school that Madeline attends, from his grandfather's second book, *Madeline's Rescue*. This time, during his surprise inspection, he walks off with a telescope found in the attic, unleashing the misery of the ghost who haunts the house. To comfort him Madeline comes up with a scheme to get the telescope back.

Though that story has a happy ending, the conflict bears an eerie resemblance to the rising tensions among the author's descendants. Perhaps Ludwig Bemelmans is the ghost haunting the old house as they still struggle to figure out what Poppy would have wanted. F

BUFFETT: JACK WELCH; ARIELY: STEPHEN VOSS

#76

Never take on a mortgage just for the tax deduction.

#77

Keep no more than $250,000 in any one bank.

#78

Buy an index fund weighted to fundamentals.

#79

Remain anonymous after winning the Powerball jackpot.

#80

Work for a charity for ten years and get your federal student debt forgiven.

#81

Beware personal finance gurus pitching products.

#82

The most successful investors spend many hours at it each day and have passion and patience. There are no shortcuts.

#83

Warren Buffett: "Diversification is protection against ignorance."

Finding the cure for the common health care system.

We don't need to fix health care. We need to fix the system.

We need to make it more about people and less about process — with far less confusion and far less runaround.

That's the idea behind our radically different business model: Aetna Accountable Care.

Under this innovative model, doctors use Aetna-provided technology that lets them share patient information and coordinate care to help achieve better outcomes. So people can get the care they need without the confusion they've become used to. And doctors can spend more time focusing on their patients and providing them with better care.

A more efficient health care system. That's our healthy. What's yours?

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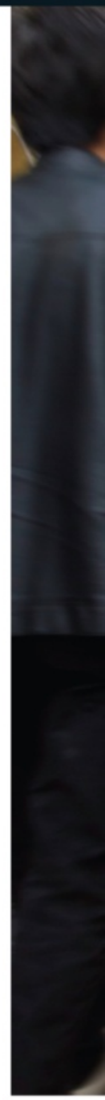


FINDING THE NEXT SAMSUNG

Braving Asia's massive consumer jungle in search of the next blockbuster stock, Mirae's petite portfolio manager, Joohee An, is leaving the benchmarks behind.

BY KENNETH RAPOZA

If imitation is the sincerest form of flattery, then Joohee An, fund manager for Korea's Mirae Asset Global Investments, should be pleased. She's the lead portfolio manager for Mirae's Emerging Markets Great Consumer Fund (MICGX) and Asia Great Consumer Fund (MGCIX). The funds were launched in 2010 as the first such "sector" funds available to retail investors in the U.S.

Now that investors are piling back into stocks and emerging markets seem to have bottomed, WisdomTree announced that it was launching a new ETF called the WisdomTree Emerging Markets Consumer Growth Fund (EMCG). More funds are coming.

They're all clamoring to get in front of what is likely to be one of the most important money waves in history. Asia's middle class already stands at over 500 million people spending just under $5 trillion annually. As China and other emerging nations urbanize and per capita incomes rise, this large pool of middle-class consumers will swell into an ocean.

By 2030, it is estimated, the Asia-Pacific region alone will account for nearly two-thirds of the world's entire middle class, spending $33 trillion annually. Hundreds of companies want a piece of this business, and smart investors are looking to find stocks that will get them in front of this tidal wave.

"If someone told you 20 years ago that they had found the next Samsung, you'd want to buy that no matter the price, right? I'm traveling Asia to look for that for you. I'm going to find at least one," says An, 33, from her office in the Admiralty district of Hong Kong.

To meet An is to understand that this is not a woman who backs down from competition. Don't let her Gangnam manners, crisp white Armani blouse or petite frame fool you. An speaks softly, but she does so with the confidence and road experience of a veteran money manager.

She is the quintessential boots-on-the-ground stock picker, traveling up and down the Asian continent, talking with health care managers in Mumbai and petting cows in Bengbu. While she's at it she's clobbering the MSCI Asia Ex Japan Index, though she doesn't believe in benchmarks.

Since An took sole control of the Asia Great Consumer Fund in February 2011, it's up 14.7% compared with MSCI Asia Ex Japan, up only 6.5%. Year to date Mirae's Asia Great Consumer is up 5.3%. This beats nearly all of her offshore-fund rivals. Credit Suisse's Asia Consumer Fund is up 3.7% so far this year, and UBS' Asian Consumption Fund is down 2.2%.

But An is dismissive of praise: "I only use benchmarks for my clients to have a point of reference, but I'm not a benchmarking player. I'm running a highly selective thematic fund, but this theme is the story in Asia," she says. Unlike WisdomTree's new ETF, which invests in 200 stocks, An has only 28 stocks in her fund.

And while her approach to finding stocks with good fundamentals is not much different from that of dozens of managers who seek out growth at reasonable prices using price/earnings-to-growth ratios and strong cash flow as a guide, An's real edge is her local expertise and her insistence that her team kick the tires and meet with management.

Mirae's intrepid money manager Joohee An in Macau. Trekking Asia's hinterlands for blockbuster stocks, Gangnam-style.

PHILIPP ENGELHORN FOR FORBES

One of her biggest holdings is China's Facebook rival, Tencent. By October 2013 Tencent's WeChat and QQ platforms had an active monthly user base of 1.1 billion compared with 1.2 billion for Facebook, which is banned in China. But WeChat's and QQ's monthly active user base is growing at 64% compared with 18% for Facebook. An first invested in Tencent in 2010 when its Hong Kong-listed shares traded at $169. Today it trades at $423.

Macau is another fertile spot for An. Think Las Vegas on steroids. During China's Golden Week holiday in October, for example, Macau gambling revenue jumped a record 32% in one month to $4.6 billion. By contrast, Nevada pulled in $1.1 billion in its best month in 2013.

In August An toured Macau, scouring empty lots along its Cotai Strip because her fund's biggest holding, Galaxy Entertainment, will spend up to $7.7 billion on expansion into Cotai by 2015. Today Cotai has only 12 casinos while the older section of Macau has 23. The Strip in Vegas has 28 casinos, while Las Vegas itself has 80 total.

Beijing has made it clear that it wants the Macau region to be a travel destination and is building infrastructure like the Macau-Zhuhai-Hong Kong Bridge connecting the mainland to Macau, encouraging its populace to travel more. Galaxy and Sands China are An's top holdings in the region.

Recently back from Cotai surveying the future home of Galaxy I, II and III, An is a chatterbox of enthusiasm: "Galaxy's construction in Cotai is going faster than they expected. So we can expect better earnings sooner," she says.

An's approach to investing comes from Mirae's legendary founder and chairman, Park Hyeon-Joo, 55. Park is known as the man who created South Korea's retail mutual fund business in the aftermath of the Asian financial crisis of the late 1990s. Today Park is one of Korea's richest men. His firm's assets

#84

Like Captain Kirk, have advisors from different planets.

#85

Before funding college accounts make sure you're saving enough in your retirement accounts.

#86

To avoid a tax penalty, tap IRAs, not 401(k)s, to pay college tuition.

#87

Borrow from grandma at 4% for grad school; Uncle Sam's Graduate Plus loans go for 6.41%.

#88

Marry a billionaire, or perhaps even more rewarding, divorce one.

#89

When buying a luxury condo, ignore superfluous amenities like massage rooms and pet spas; they won't contribute to resale value.

#90

Add commercial real estate to your portfolio.

#91

Wait for inflation to rise before buying TIPS.

are $58 billion. Says Park, "It is very important to have two eyes. With one, observe what is going on. With the other, foresee the future."

Joohee An joined Mirae in 2006 after a stint as an analyst at Seoul's LG Investments & Securities. She grew up in Seoul's posh Gangnam neighborhood and graduated from Korea's prestigious Yonsei University. At Mirae An moved up quickly and within three years was transferred to Hong Kong, where she was instrumental in launching Mirae's Emerging Markets Great Consumer Fund in 2010.

While An is table-pounding bullish on consumer stocks in emerging Asia ("Double-digit income increases in Thailand, Indonesia and China are reasons to buy"), she is selective when it comes to adding to her portfolio.

She recently visited dairy farms in the landlocked Anhui Province in eastern China, home to 59 million Chinese, all of whom remember the 2008 tainted-milk crisis, which made 300,000 people ill and caused 6 infant deaths. The new Chinese administration, which took power in March, announced a strategy aimed at rebuilding and creating national dairy champions in its infant-formula industry, which was decimated by the scandal. This is exactly the kind of change Joohee was looking for.

"I stayed away from dairy for two years, but since the government has pushed quality improvements, I've wanted to check it out," she says from her home in Hong Kong's Star Street district, a three-minute walk to her office. An met with management from New Zealand's Fonterra, Biostime International Holdings, China Modern Dairy and China Mengniu Dairy Co. "You have to meet them on the ground. These trips are everything," she insists. But An is still not a buyer.

When one is investing in the growth stocks of developing nations, An says, it's important not to get too hung up on multiples. The real value, she says, comes from brand leadership and from good management and strategies that can sustain growth. "It might be trading at 40 times, but that is not important. The value is in the management and the trend they inhabit long term."

An's newest buy is India's Apollo Hospitals. Says she, "Apollo always looked so good to me but so expensive." As the stock has dipped she's been loading up on it.

Her favorite trend is Chinese tourism. She recently bought Thai developer Minor International. It operates 82 hotels throughout Asia, Africa and the Middle East, including the Four Seasons and luxury-resort brand Anantara.

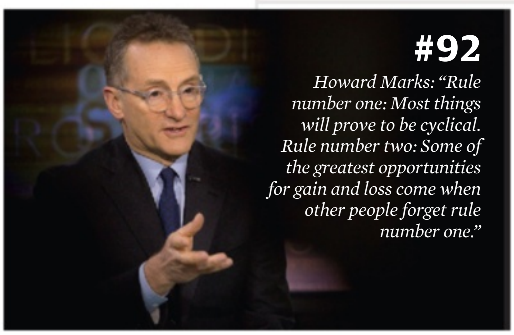
"They have hotels in hot tourist destinations like the Maldives and Australia," she says. "Earnings will beat consensus, and, most important, Chinese travelers love Minor's brands."

Back in Macau she's moving beyond the up-and-coming Cotai Strip and looking for future sources of revenue. She's now investigating Hengqin Island, a 40-square-mile, mostly vacant piece of land next door to Macau. It's part of Beijing's greater Macau concept, where there will be malls, new theme parks and restaurants and, of course, more hotels.

In October, on the Emerging Markets Great Consumer Fund's third anniversary, Morningstar gave it a five-star rating. That means in the future An is likely to be spending less time scouring Asia's hinterlands and more time pitching little-known Mirae to clients in North America and Europe. Despite her firm's prowess in emerging markets, her two U.S.-based retail funds account for less than $100 million. Picky advisors will need to be convinced that her talents are worth her fund's 1.6% expense ratio.

Uncovering the next Samsung will help. "I can't say that all my global brands will be the next big thing," she says. "However, let's not forget that this is a market of billions of people. If some of these companies can become regional giants, like Alibaba [Asia's Amazon.com], then we can still make a lot of money." F

GRANDMA: GETTY IMAGES; MARKS: BRENT LEWIN/BLOOMBERG; YACHT: BLOOMBERG



#92

Howard Marks: "Rule number one: Most things will prove to be cyclical. Rule number two: Some of the greatest opportunities for gain and loss come when other people forget rule number one."

#93

Before remarriage, discuss estate plans.

#94

Track gambling losses to offset taxable gambling winnings.

#95

Confess any tax crimes to a lawyer, not a CPA.

#96

Deduct your yacht loan as mortgage interest on a second home.

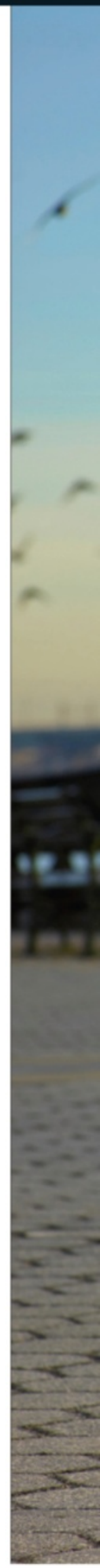
#97

Don't do deals between yourself and your own IRA.

#98

Don't roll your old 401(k) into an IRA if you might face a lawsuit.

STOCKS WITH A SAFETY NET



Edward Silverstein's convertible fund has beaten both stocks and bonds. How did he do that?

BY WILLIAM BALDWIN

Here's a security with seemingly magical properties: It captures most of the gain in a stock when the stock is going up but loses only half as much when the stock tanks.

Money manager Edward Silverstein has 90 of these things in the portfolio he runs. They are convertibles: bonds (or sometimes preferred stocks) that the owner can convert into shares of common stock. As hybrids of debt and equity, they are the perfect investment for a timid bull.

If the stock in question shoots up, you exercise your right to convert and get most of the gain you would have had owning just the stock. If the stock bombs, you forget about the conversion and cash in the bond when it matures for its par value. Heads you win, tails you don't lose very much.

A sure way to beat the stock market? Not quite. The subtlety here is that stocks go up more often than they go down, so the bet that seems lopsided in favor of the buyer is in fact pretty close to a fair one. Still, in the right hands this compromise between stocks and bonds can outperform both bonds and stocks.

Over the past decade the Barclays bond index has returned 4.7% a year and the S&P 500 stock index 7.7%. Silverstein's $838 million fund, MainStay Convertible, has delivered 7.9%, and that's after a 1% expense burden.

Silverstein, 46, got into his profession in a roundabout way. After completing an accounting major and a law degree he realized he had no taste for either field. How to convert those credentials into something tolerable? He started out in the legal department of a bank, edged into investment-related work, then landed a job researching securities. He's been lead manager of the convertible fund (whose fund family is owned by New York Life Insurance) since 2004.

Silverstein and his deputy Elizabeth Xu are at heart stock analysts, not bond buyers, and their success has to do with spending more time thinking about growth prospects and per-share results than about credit ratings. They are overweight pharmaceuticals (Gilead and Teva) and oilfield service (Schlumberger and Helix Energy). They like consumer goods. They are not fond of alternative energy.

Elon Musk, the glamour boy of Silicon Valley, is behind two companies with big convert issues outstanding: Solar City, which puts solar panels on rooftops, and Tesla Motors. Silverstein won't touch either of them. Don't call him antigreen; he commutes to work, down Manhattan's mean streets, on a bicycle.

What bothers Silverstein is a business model that depends on subsidies. Tesla can't live without the tax credits that go to electric car buyers and the emission credits it sells to other carmakers. "Taxpayers may get tired of supporting either the people who buy $80,000 cars or the billionaire that produces them," he says.

Silverstein buys a lot of his converts when they are spanking new. Issuers are willing to float them at a slight discount to their mathematical value, he says, because raising capital this way is less painful than the alternatives. A pure bond offering would carry a higher interest burden; a pure stock offering would raise suspicions that management is expecting trouble.

When a new convert comes to market, it lies somewhere in the middle of the bond/stock spectrum. In time it may drift to one side or the other. If the stock in question sinks like a stone, the conversion privilege becomes close to worthless and the bond trades like a plain old bond (probably a junk bond; issuers tend not to have terrific balance sheets). If the stock is a winner, the convertible shoots way up in price and acts like a pure stock equivalent.

Gilead Sciences issued a 1% convertible bond three years ago, at a time when its stock was limping because investors were fixated on the coming

Money manager Silverstein has no use for electric cars—or Tesla bonds.

DAVID YELLEN FOR FORBES

HYBRIDS

THESE ANIMALS HAVE A FIXED-INCOME BODY AND AN EQUITY HEAD. THE LOWER THE CONVERSION PREMIUM, THE MORE A CONVERTIBLE ACTS LIKE A STOCK.

ISSUE	PRICE	CONVERSION PREMIUM[1]	BOND VALUE[2]	YIELD GAIN[3]	FIRST CALL OR MATURITY
CHART INDUSTRIES 2%	$1,447	15.0%	$768	1.6%	AUG 2018
GILEAD SCIENCES 1%	3,158	0.1	1,001	0.3	MAY 2014
HELIX ENERGY SOLUTIONS GP 3-1/4%	1,200	35.1	933	3.7	MAR 2018
JARDEN CORP. 1-7/8%	1,305	13.2	874	1.6	SEP 2018
JDS UNIPHASE 5/8%	992	55.7	847	1.0	AUG 2018
MICRON TECH 1-5/8%	1,811	5.3	619	0.9	FEB 2018
STANLEY BLACK & DECKER $4.75 PFD	129	17.5	115	1.9	NOV 2015
TEVA PHARMACEUTICAL INDS 1/4%	996	7.9	978	-2.5	DEC 2013

[1]EXCESS OF CONVERTIBLE PRICE OVER VALUE OF STOCK INTO WHICH IT CONVERTS. [2]WHAT THE SECURITY WOULD BE WORTH WITHOUT ITS CONVERSION PRIVILEGE. [3]BOND COUPON LESS STOCK DIVIDEND, AS A FRACTION OF CONVERSION VALUE. *SOURCES: BLOOMBERG; MACKAY SHIELDS.*

expiration of patents on AIDs drugs. Silverstein figured the company would come up with new discoveries to replace the old ones. He bought the bonds.

Since then a company Gilead acquired has hit the jackpot with what looks like a very effective treatment for hepatitis C. Gilead's stock has quadrupled. The bonds Silverstein bought have tripled in value to $3,158, a hair above the value of the stock for which they can be exchanged. The bonds' $1,000 redemption value, and their $10 annual coupon, are almost irrelevant.

The fund's less meteoric securities have more of a bond flavor. Last year Jarden Corp. sold Silverstein 1-7/8% bonds convertible at the option of the holder into 21.2 shares of stock. The company is a roll-up of assorted consumer brands like Mr. Coffee, Coleman and Yankee Candle.

The MainStay fund paid $1,000 per bond. If you want one now it will cost you $1,305. What do you get for that outlay?

If you think of yourself as a fixed-income investor, then you are buying a bond that matures in September 2018 at $1,000 and pays an $18.75 annual coupon. Absent the conversion feature, that piece of paper would be worth $874, estimates Bloomberg. So you are paying $431 for an equity kicker—the right to switch into shares of stock. And you will be switching, if the stock doesn't crash.

Silverstein looks at this investment from the other side. At this point the convert holder really owns shares in Jarden, he figures, but pays a little extra for the right to put the shares back for $1,000 if something bad happens.

To calculate what the put option is costing you, start with the fact that the 21.2 shares are worth $1,153. You're paying $152 more than that. But you'll be getting $90 in coupons over the next five years, while the stock pays no dividend. Your put option, then, has a $62 price tag. If it lets you sleep at night, it's a good investment.

The MainStay portfolio has a strong equity flavor. Its market sensitivity is 0.79, meaning that a 1% move up or down in the stock market is likely to move the fund up or down 0.79%. The average sensitivity for the convert universe, Merrill Lynch calculates, is 0.59.

Converts are a plausible option for investors who would otherwise buy a mix of stocks and bonds. Do understand, however, that the bonds in question are junk bonds. If we get another 2008—when almost everything crashed—these securities will not be immune. F

SHILLING: SCOTT EELLS / BLOOMBERG; SHILLING: SCOTT EELLS / BLOOMBERG; ROBERTSON: PATRICKMCMULLAN / SIPA / NEWSCOM

#99
When creating a trust or family limited partnership for asset protection, don't give it your own name or one obviously identified with you.

#100
Profit from stock market volatility: Buy into a VIX futures fund and use wild, seemingly irrational swings as buying opportunities.

#101
Gary Shilling: "The market can remain irrational longer than you can remain solvent."

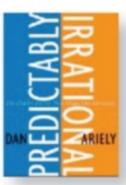
#102
Beware dividend traps—fat payouts supported by declining cash flow.

#103
Bet against weak currencies, like George Soros.

#104
Back up your financial records using a secure cloud service.

#105
Before investing in your own state's 529, compare its fees and tax breaks to New York's rock-bottom cost plan.

#106
Buy liens on homes of real estate tax deadbeats.



#107
Know thyself: Read books like Dan Ariely's Predictably Irrational *and* Your Money & Your Brain *by Jason Zweig.*

#108
Learn a lesson from each stock-picking mistake.

#109
Julian Robertson: "Buy into forgotten markets."

#110
Join an angel investing club.

#111
Keep your own entrepreneurial options open by refusing to sign onerous noncompete agreements.

#112
Buy stocks of companies still controlled by their billionaire founders.

#113
Leon Black: Do your homework, but still don't bet the ranch.


WAS YOUR LAST INVESTMENT DESIGNED WITH THE SAME METICULOUS ATTENTION TO DETAIL?
SPY
Some design flaws are so obvious, you have to wonder how they were ever able to pass inspection. Investments are no exception. After all, who wants to invest in a watered down version of what they expected?
Twenty years ago, State Street Global Advisors created the first exchange traded fund: the SPDR® S&P 500® It offers a more precise way to buy and sell an entire index, but is traded like a stock.
Today, there are more than 120 other SPDR ETFs that cover a range of asset classes. So you can be sure you'll get just what your portfolio needs.
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BACKDOOR PROFITS FROM FRACKING

The boom has driven up prices of companies with drilling rights—but there is money to be made on pipelines, railroads and other infrastructure plays.

BY DANIEL FISHER

The low-pitched thrum of natural-gas-fired engines vibrates across the rural valley in Pennsylvania's Susquehanna County, where Cabot Oil & Gas is drilling a new well to tap the Marcellus shale formation a mile underground.

As workers swing drilling pipe into the 135-foot-tall rig, a parade of trucks rumbles up the narrow dirt road from Montrose, Pa. Until the shale boom Montrose was best known for its bluestone quarries. Now the roads in this northeastern Pennsylvania county are filled with heavy trucks hauling drilling fluids, pipe and the thousands of tons of sand that drillers pump into the ground to open up fissures in the granite-hard Marcellus and let the gas flow.

Cabot's Pennsylvania wells are natural gas gushers, expected to produce an average of 14 billion cubic feet over a well's 50-year life span, 14 times as much as a typical Oklahoma well. Already the Marcellus shale, extending from New York to West Virginia, is supplying 12 billion cubic feet a day, or almost 15% of U.S. gas demand.

It's well known that the combination of newer horizontal drilling with the 60-year-old practice of hydraulic fracturing has unlocked huge new reserves of oil and gas across North America. What's less well appreciated is how enormous those reserves are—North Dakota's Bakken shale will soon be pumping out nearly twice as much crude per day as Prudhoe Bay in Alaska—and the hundreds of billions of dollars that need to be spent on infrastructure to bring all this oil and gas to market.

"You're going to need pipelines, you're going to need storage and in some cases you're going to need the existing pipelines reversed," says Aaron Visse, who manages the $90 million (assets) Forward Global Infrastructure Fund in San Francisco. "We built this thing the wrong way, and now we've got to adjust."

The shale boom has already driven

Farmland interrupted: A crane towers over pump trucks at a Cabot Oil & Gas fracking site in Susquehanna County, Pa.

#114

Louis Bacon: "As a speculator you must embrace disorder and chaos."

#115

Almost all great value investors look for market anomalies or disconnects that they can exploit.

#116

Warren Buffett: "Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble."

#117

Always keep some investment powder dry.

#118

Allocate investments against your life risks.

#119

Andrew Tobias: "A penny saved is two (pretax) pennies earned."

#120

Deduct losses from your sideline/hobby by bunching your expenses and showing a small profit in 3 of 5 years.

#121

Postpone real estate gains tax with a 1031 exchange.

#122

Qualify as a "real estate professional" to save big on taxes.

DAVID YELLEN FOR FORBES (LEFT); BACON: ED ANDRIESKI / AP; BUFFETT: JACK WELCH up stock in drillers like Cabot. At more than 27 times next year's expected earnings, the stock is priced as if the rest of the wells Cabot will drill in Susquehanna County will be as productive as the 285 it's drilled so far. Investors are also paying more than the current net value of Pioneer Resources and other exploration and production companies with lots of undrilled shale acreage, and a lot less for shale-deprived Apache, according to oil analysts IHS Herold.

But there are still lots of ways to play the shale boom, including pipeline companies, chemicals giants like Dow and smaller companies like Twin Disc, which sells compressors to push the gas through the interstate pipeline system. The Interstate Natural Gas Association of America estimates $5.7 billion a year, or more than $140 billion, will be spent on gathering systems, interstate lines, and compression and processing equipment through 2035.

"The growth we're seeing in the U.S. is greater than anyone expected," says David Ginther, manager of Waddell & Reed's $2 billion (assets) Ivy Global Natural Resources Fund. To handle an expected doubling of domestic crude production over the next few years, Ginther says, the nation's oil infrastructure must be expanded at least 70%. Gas pipelines and processing facilities have already increased 35%, he says, "and they have to do that again."

The shale boom isn't without risk, of course. One is political: Environmentalists in states not used to the sight of drilling rigs are mounting a fierce political battle to ban fracking (old hands wince at the insertion of a "k" in a term based on the word "fracturing"), even though the technology has been widely used in U.S. oilfields since it was developed in Kansas in the late 1940s.

Another is the risk of too much supply: The flood of natural gas has driven prices below $4 per thousand cubic feet from more than $10 per thousand in 2008. Companies like Chesapeake Energy that spent too much on land too far from major markets and pipelines have been forced to sell assets to survive the decline in prices.

Drilling contractors are also suffering lately from low gas prices, which leave the still healthy drillers able to play them off against one another for each new well. Railroads, however, are emerging as clear winners, with volumes surging as they haul oil from landlocked areas like North Dakota. Visse likes Norfolk Southern and CSX, both of which have good networks for bringing Bakken crude to East Coast refineries. Norfolk Southern, for example, reported 20% higher earnings in the third quarter thanks to higher shipments of crude oil and natural gas drilling equipment. Crude hauling is particularly profitable since the drilling companies have to pay for the tank cars.

Kent Croft of Croft Leominster in Baltimore, with $850 million under management, has been buying natural-gas-related companies for several years under the theory that the fuel is so cheap relative to oil, or even gas in overseas

RIDING THE SHALE BOOM

HERE ARE SOME BUYS WORTH CONSIDERING, WHETHER YOU'RE LOOKING FOR GROWTH OR, IN THE CASE OF THE MLPS, INCOME.

STOCKS	RECENT PRICE	2014 EST P/E
NATIONAL OILWELL VARCO	$83.36	13
NORFOLK SOUTHERN	86.05	14
QUANTA SERVICES	29.27	17

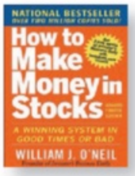
MLPS	RECENT PRICE	DIVIDEND YIELD	DIVIDEND 5-YR ANNUAL GROWTH
ENTERPRISE PRODUCTS PARTNERS	$61.38	4.5%	6%
ONEOK PARTNERS	52.91	5.5	5
WILLIAMS PARTNERS	49.66	7.1	9

PRICES AS OF NOV 20. *SOURCES: INTERACTIVE DATA, FACTSET ESTIMATES AND REUTERS FUNDAMENTALS VIA FACTSET RESEARCH SYSTEMS.*

#123
Be leery of investments sold for tax savings.

#124
Burton Malkiel: "Start saving now, not later: Time is money."

#125
Before making a big discretionary purchase, calculate future cost—what the dollars you're spending could grow to if invested for 20 or 30 years.



#126
Read How to Make Money in Stocks *by William J. O'Neil.*

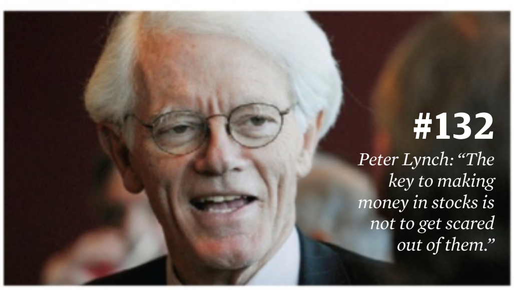
#127
Buy designer goods at consignment shops; when you get bored with them, sell for a profit on eBay.

#128
Discuss any prenuptial agreement way in advance of your wedding.

#129
Hell hath no fury. ... Never cheat on your taxes and your spouse at the same time—exes are a big source of IRS leads.

#130
Don't buy a large amount of a thinly traded stock all at once.

#131
Buy and hold at your own risk.



#132
Peter Lynch: "The key to making money in stocks is not to get scared out of them."

#133
Don't be afraid to buy into strength.

#134
It's okay to chase performance—sometimes.

#135
Burton Malkiel: "In the stock market, past is not prologue."

#136
Start a 529 college savings plan for yourself before you have children. If you don't use it for graduate school, transfer it to your kid.

MARRIAGE: SKIP CAPLAN / ALAMY; LYNCH: MICHAEL SPRINGER / BLOOMBERG

markets, that the price must eventually rise. Liquefied natural gas sells for $16 per million Btu (equivalent to nearly 1,000 cubic feet) in Japan, $15 in China and $11 in Europe, compared with less than $4 in the U.S. On a Btu-equivalent basis, gas in the U.S. is selling at less than a quarter the price of oil.

So Croft is buying companies that should profit from a long-term closing of the gap. He likes Houston's Quanta Services, which last year sold its once-hot fiber-optic contracting business to focus on building natural gas pipelines and servicing electric utilities as they shift from coal to natural gas. Quanta's revenue was up 13% in the first half of this year, while operating income rose 37%. It sells at 16 times earnings, only a slight premium to the Standard & Poor's 500 Index.

Croft has also bought National Fuel Gas, a Buffalo, N.Y. gas utility that owns 775,000 acres in the Marcellus. National Fuel will spend an expected $460 million on exploration and production this year and is rapidly building pipelines to carry Marcellus gas to market.

Other companies with heavy exposure to the shale-infrastructure build-out and the expansion of the global LNG trade include pipe manufacturer Tenaris, National Oilwell Varco and engineering firms like KBR and Fluor. Investors with a stronger risk appetite might look at companies like Twin Disc, which makes pumps and fracturing equipment, and Chicago Bridge & Iron, which builds LNG terminals and has seen its stock rise 16-fold since 2009.

Ginther urges caution with these companies, however: "One bad contract, and they can get dinged pretty badly," he warns.

A more conservative way to play the shale boom is by investing in master limited partnerships, which now have a new supply of projects to increase dividends. Mark Reichman, with the Houston investment banking firm Simmons & Co., says Kinder Morgan is well positioned to capitalize on growing natural gas exports, including the $200 million Sierrita project that will transport gas from Arizona to northern Mexico—and help support gas prices in the U.S. Markwest Energy Partners is building a gathering-and-processing network to collect gas from wells in the Marcellus and Utica plays in Pennsylvania and Ohio, separating out the liquids that frequently flow with it.

Reichman also recommends a handful of MLPs that are investing in crude-oil transportation, including Crestwood Midstream Partners, which this year acquired Inergy to gain access to the Bakken shale; Enbridge Energy Partners, which is building projects to move heavy crude to the Gulf of Mexico and lighter Bakken oil to East Coast refineries; and Williams Partners, with its growing infrastructure in the Marcellus and interstate pipeline system.

Williams Cos., the operator of Williams Partners, plans to spend $3.3 billion expanding its gathering system in Pennsylvania through 2015, on top of the $5 billion in dividend-producing assets it already has there.

"I've worked all over the country—offshore Gulf of Mexico, Texas, the Rockies—and these are the biggest wells I've ever seen," marvels Ryan Savage, regional vice president in charge of pipeline operations for Williams Cos., which will carry Cabot's gas to market. "This resource is so huge, it's just incredible." F

LAPTOP: ETTY IMAGES; SHILLER: PETER FOLEY / BLOOMBERG; FISHER: GILLIANNE TEDDER / BLOOMBERG

#137

Make your kid rich by helping him fund a Roth IRA.

#138

Deplete Junior's UTMA—you can spend it on a laptop, camps, private school and tutoring—before applying for college financial aid.

#139

Reduce your student loan interest rate with auto debit.

#140

Julian Robertson: Suggest your kid take an accounting course—"It was the course that helped me more than anything."

#141

Robert Shiller: "If you want to get rich, go into finance or a related field. Finance is the technology for making things happen."

#142

Identify companies that gouge you yet keep your business. Buy them.

#143

Buy stocks like socks—good quality on sale.

#144

Buy into big ideas just like a global macro hedge fund for as little as $1,000 to start.

#145

Use limit orders when buying small-company stocks with low trading volume.

#146

Don't leave it all in the dollar. Invest globally for currency diversification.

#147

Dollar-cost average the whole stock market.

#148

Buy companies with high ratios of gross profits-to-total assets.

#149

John Neff: "Buy on the cannons and sell on the trumpets."

#150

Monitor your individual stocks; set a Google news alert and watch for signs of possible trouble.

#151

Bone up on "risk parity" diversification.

#152

Always know how a financial advisor is getting paid and what if any commissions she'll earn.

#153

Watch out for paid shills at investment seminars.

#154

Ken Fisher: "You know who didn't have bad years? Bernard Madoff—until he got caught."

#155

Buy a retirement annuity cheap by delaying Social Security until 70.

#156

If you need to tap retirement cash early, study up on the exceptions that let you avoid a 10% penalty, including taking "substantially equal periodic payments."

#157

Burton Malkiel: "Tune out the financial TV channels. Watch the cooking channel or the gardening channel if you want useful advice."

#158

Warren Buffett: "Returns decrease as motion increases."

TURNING $1,000 INTO $42 MILLION

I HAVE BEEN WRITING for this magazine for 29-plus years, and with this issue I pass Lucien O. Hooper to become the third-longest-running "expert" columnist in FORBES' 96-year history. Lucien may have been the most popular ever for what Steve Forbes recalls as his "conversational way," and even though he died 25 years ago, his investing lessons still hold today.

Lucien oozed his Maine farm boy origins. A Harvard dropout, Lucien began at the bottom of the *Boston Commercial* in 1919, eventually overseeing statistics while penning a commodity column. Soon he was writing stock market commentary for multiple brokerage firms now long forgotten (remember E.A. Pierce?) and became a leader on security and financial analysis.

Lucien's arrival at FORBES came via Helen Slade. If Ben Graham is the father of security analysis, then Helen is surely its mother. Ben, in fact, was Helen's prime disciple. Number two? Lucien. When Helen started *The Analysts Journal* in 1945 (today's *Financial Analysts Journal* and the bible to the scholarly set), she had Ben and Lucien debate each other in the very first issue. (So typical of him, Lucien always said he lost. No one lost. Everyone won.)

Helen hosted legendary "Tipsters Wednesday night soirees" once a month—40 to 50 financial folk, swilling, spilling and grilling each other's market ideas. Even my introverted father attended when in New York, and one July evening in 1949 so did a

THOMAS KUHLENBECK FOR FORBES

29-year-old Malcolm Forbes, who had an amazing knack for picking people and recognized that Lucien knew his stuff, made the abstract comfortable and endured where "smarter men usually fail," as Lucien put it.

On Aug. 15, 1949 Lucien's first column came out swinging—correctly claiming the three-year bear market was over. Stocks skyrocketed until 1956. He pushed people to quality growth shares, which also proved right then. Sure, he made mistakes—he missed the 1974 downturn and proved too cautious in the ensuing bull market, prompting him to wind up his column on Jan. 1, 1979. But overall he was more right than wrong.

In FORBES he coined classic lines like "[Investors] make more money with the seat of their pants than the soles of their feet." He called out-of-favor stocks "ex-friends and ex-possibilities." He explained the difference between short-term and long-term plays as the kind you "take out for the evening" versus ones you "take home to mamma." (He dealt in both but said most folks "make more money with mamma.")

His overarching counsel was to pick among his picks—then let the winners run very, very long. In honor of Lucien here are five of his picks that I like now—and I show how rich you would be if you had put $1,000 then into each (in a tax-free account) when he first recommended them, and reinvested all dividends:

He recommended **ROYAL DUTCH SHELL (RDS.B, 71)** on Dec. 15, 1974. That $1,000 then is worth more than $452,000 now. I just recommended it again on Nov. 18.

My first big hit in life, in 1975, was coatings, glass and chemical maker **PPG INDUSTRIES (PPG, 183)**. I think it's a potential hit again. Lucien's Oct. 1, 1976 entry would turn $1,000 into more than $172,000 today.

One of my father's early big hits was Motorola in 1953, now **MOTOROLA SOLUTIONS (MSI, 65)**. Lucien was there first on Feb. 1, 1950—and $1,000 then exceeds $735,000 now.

PROCTER & GAMBLE (PG, 85) should beat the rest of this bull market. Lucien's pick at year-end 1950 would be worth more than $1.1 million now.

The topper? **KANSAS CITY SOUTHERN (KSU, 122)**—our very best railroad. Lucien picked it in his first column and many times since. A $1,000 stake on Aug. 15, 1949, reinvested, is worth more than $42 million now—one of history's best picks and one worth repeating. Then or now, you read it in FORBES first.

MONEY MANAGER KEN FISHER'S LATEST BOOK IS *MARKETS NEVER FORGET (BUT PEOPLE DO)* (JOHN WILEY, 2011). VISIT HIS HOME PAGE AT WWW.FORBES.COM/FISHER.

PLEASE TURN THE PAGE TO SEE THE ALTERNATIVE INVESTING GATEFOLD

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If people can do it, could a fund?

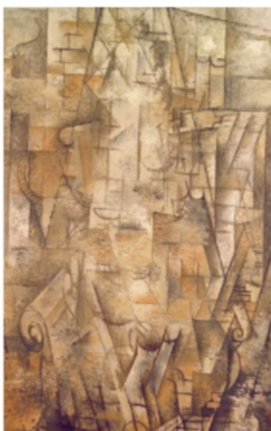
Investing in MLPs involves additional risks compared to the risks of common stock, including risks related to cash flow, dilution and voting rights. Energy infrastructure companies are subject to risks such as fluctuations in commodity prices, reduced volumes of natural gas or energy commodities, environmental hazards, changes in macroeconomic conditions, regulations or extreme weather. MLPs may trade less frequently which may result in erratic price movement. MLPs are highly regulated and may be adversely affected by changes in the regulatory environment including the risk that an MLP could lose its tax status as a partnership. The Oppenheimer SteelPath MLP Alpha Fund is organized as a Subchapter “C” Corporation which means that it will pay federal, state and local income taxes at a corporate rate based on its taxable income (currently as high as 35%). The potential benefit of investing in MLPs generally is their treatment as partnerships for federal income tax purposes. Since the Fund is a corporation, it will be taxed at the fund level which in turn will reduce the net asset value and the amount of cash available for distribution. The Fund is classified as a “non-diversified” fund and may invest a greater portion of its assets in the securities of a single issuer.

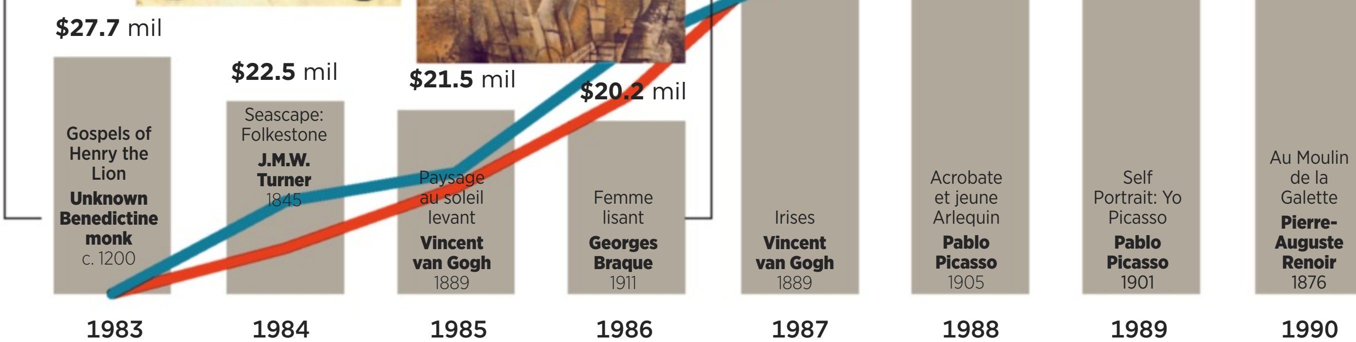
The Fund accrues income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments. This deferred tax liability is reflected in the daily NAV and as a result of the Fund’s after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked. Distributions from MLP funds have been classified as a “return of capital” which reduces the investor’s cost adjusted basis.

HOW SMART IS ART?

When a Francis Bacon triptych of his friend Lucian Freud sold for $142 million in November, it was heralded as the highest-ever price for a piece of art at auction. But adjusted for inflation, it didn't top Renoir's 1876 painting of a Paris dance crowd, which brought the equivalent of $154 million in 1990. And those numbers don't reflect the fluctuating values of the art market as a whole, shown as the red line that represents a newly released index of 21,000 works compiled by Stanford finance professor Arthur Korteweg. Though an index fund (the blue line) doesn't give the pleasure of a work of art, it is a safer investment. The gray bars show the highest-priced works auctioned each year, adjusted for inflation.

BY SUSAN ADAMS, JANE LEE AND CALEB MELBY



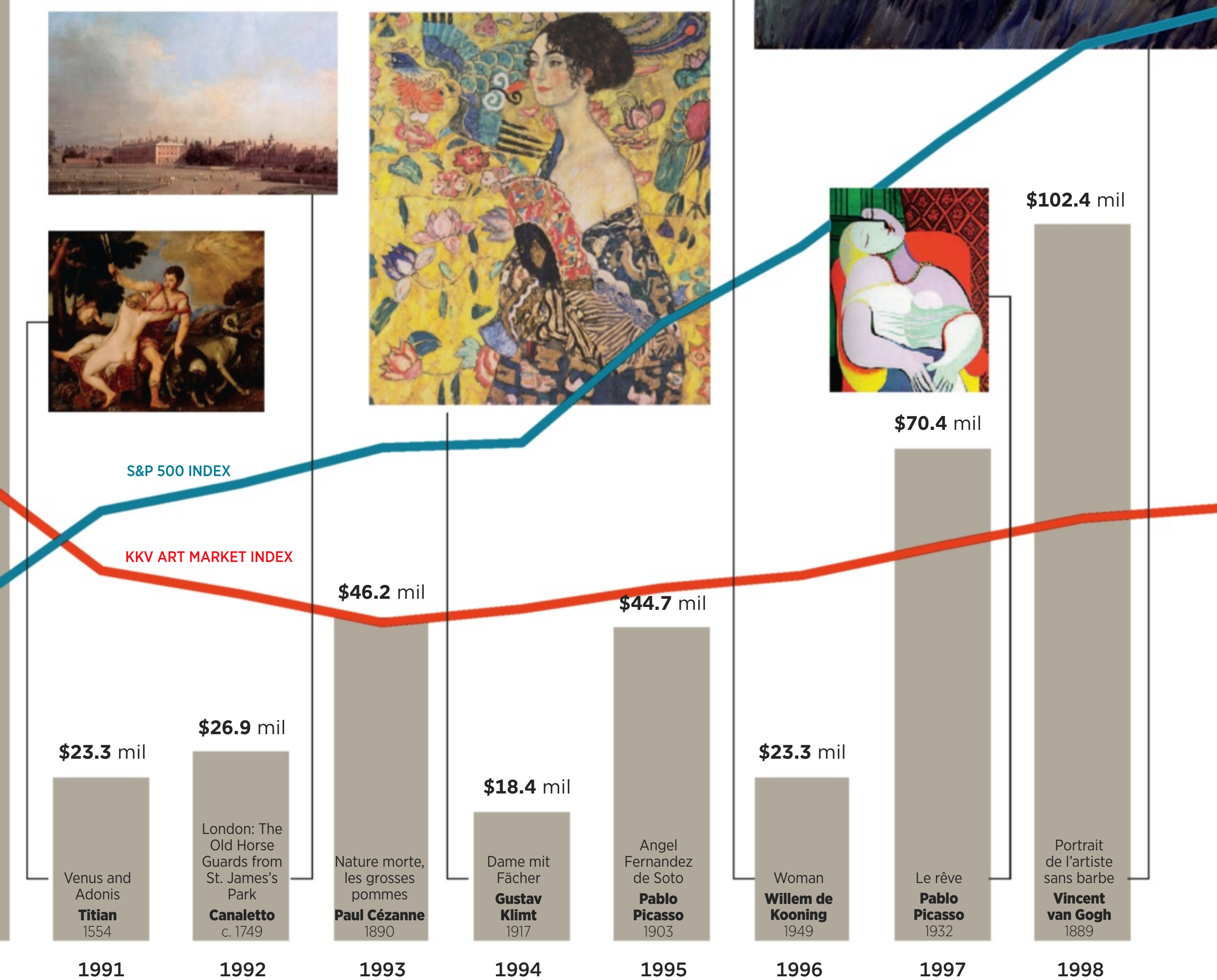


SOURCE: ARTNET.

DAVID NAHMAD

BILLIONAIRE MEGADEALER

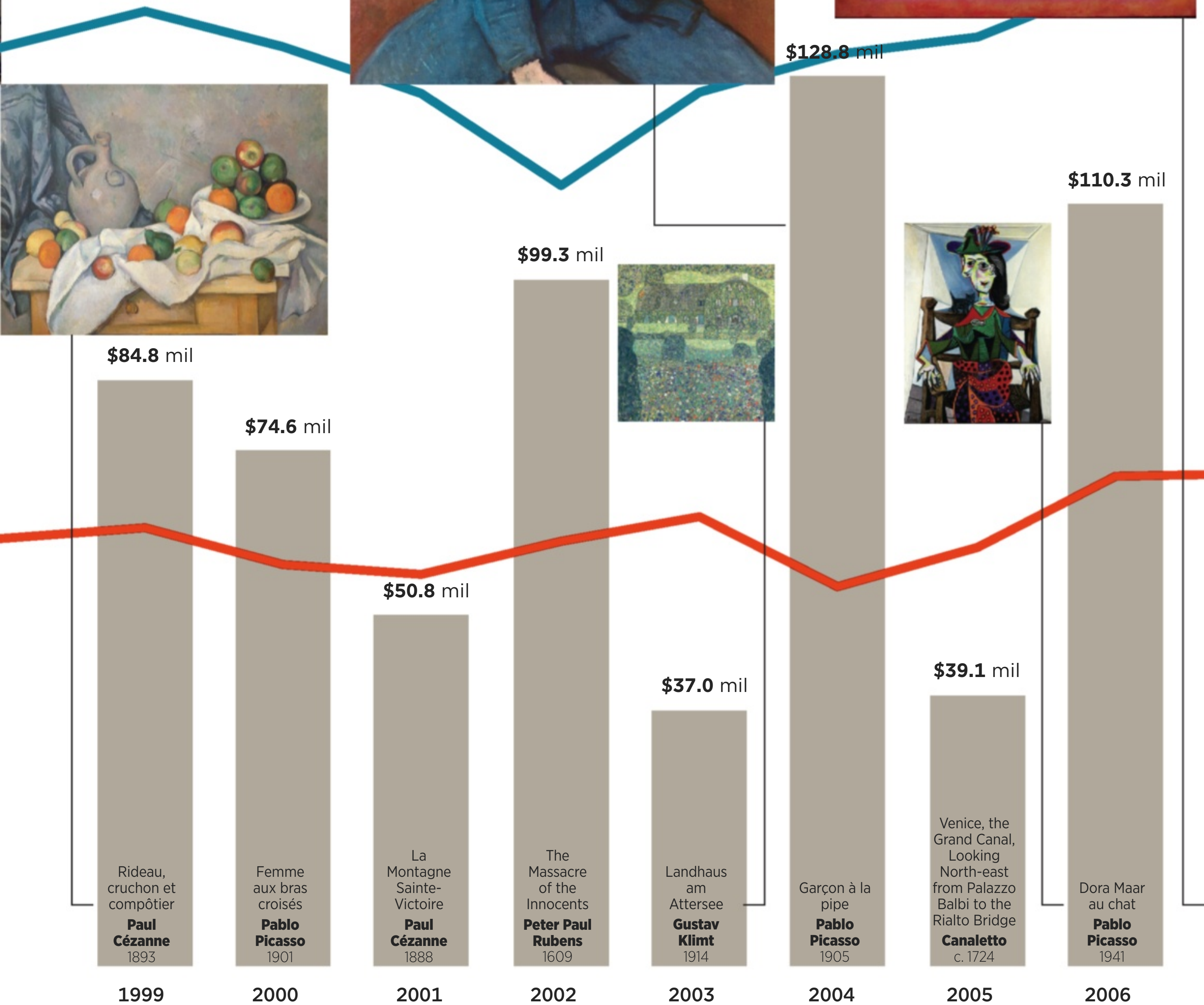
If you know what you are doing, art is the best investment. You have to buy an A-plus painting or something that is not hyped. The superrich people pay stupid prices for the best paintings, and they fight for the same paintings.



DONALD RUBELL

CO-OWNER, RUBELL FAMILY COLLECTION

The real breakthrough for us occurred sometime around 1979. We'd go to 30 studios a month. If you were lucky, in two or three months you'd find one artist who was interesting. All of a sudden in 1979 every week we were finding [ones we liked]. We bought Cindy Sherman for $25.



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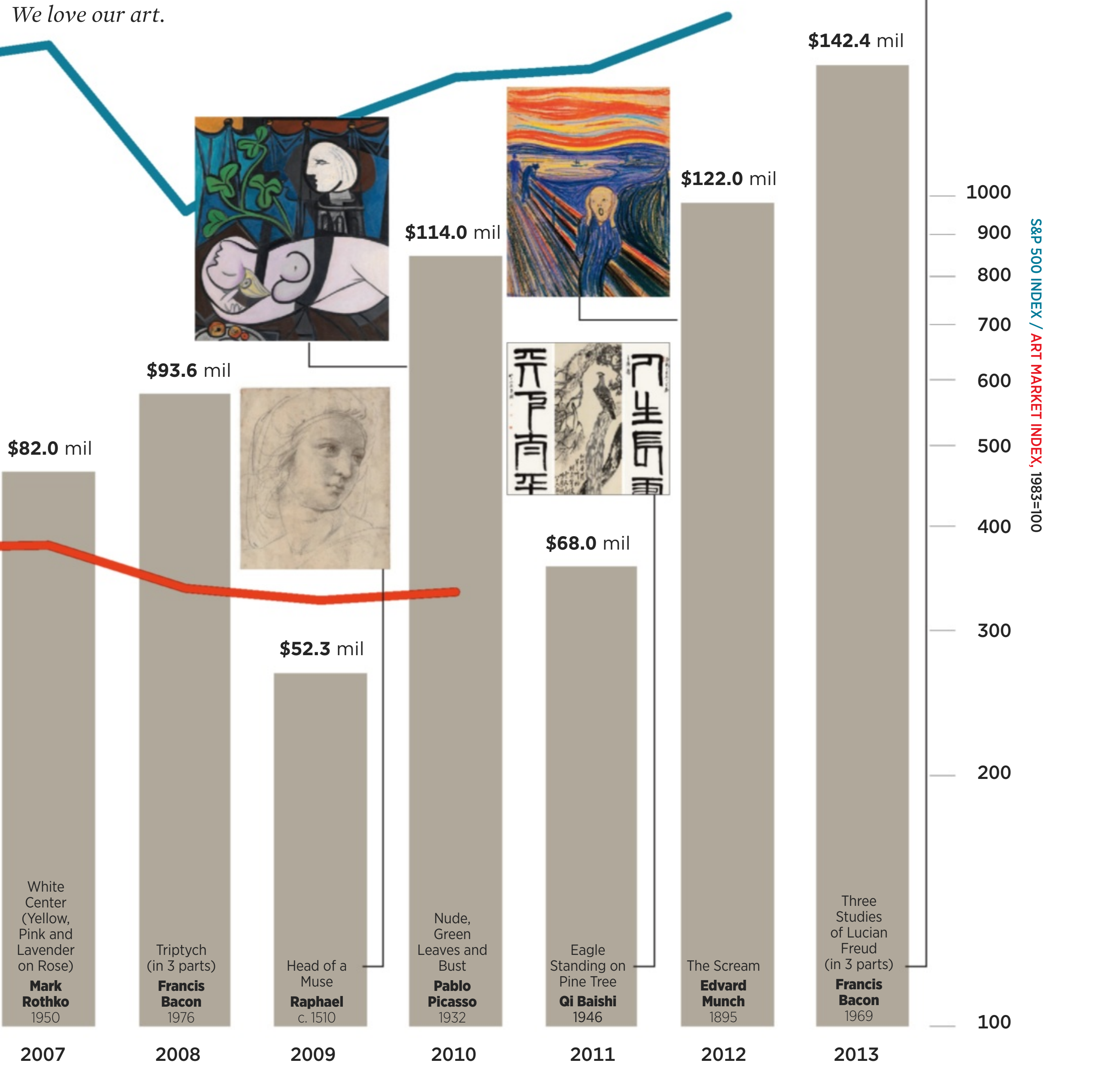
NORMAN BRAMAN

BILLIONAIRE CAR SALESMAN, ART COLLECTOR

I don't recommend people buying art as investment. I think it's a huge mistake. I don't know one individual who bought art for investment who has come out well. It's just the wrong approach. Art is special. We love our art.



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ended 9/30/13 based on risk-adjusted performance.[1]

This fund aims to multi-task, looking to generate growth and earn income by investing in U.S. energy infrastructure companies, structured as Master Limited Partnerships. We believe these companies offer a unique and compelling risk to reward balance, and could benefit from a renaissance of shale-driven oil and gas production.

Let's take a fresh look at portfolios and start a new conversation about growth, income and protection* against certain risks in a changing world.

GrowthIncomeProtection.com

***Protection is positioned as an investment goal. Investing in certain securities may help to hedge against certain risks, but does not imply any guarantee from loss.** Mutual funds are subject to market risk and volatility. Shares may gain or lose value.

1. For each fund with at least a three-year history, Morningstar calculates ratings based on a proprietary risk-adjusted return score that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistency. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars and the bottom 10% 1 star with some adjustments for multiple share class portfolios. **The Overall Morningstar Rating is derived from a weighted average of the 3-, 5- and 10-year ratings (where applicable).** For the 3-year period, the SteelPath MLP Alpha Fund was rated 4 stars among 90 funds in the Equity Energy category for the time period ended 9/30/13. Rating is for Class A shares and rating may include more than one share class of funds in the category, including other share classes of this fund. Different share classes may have different expenses, performance characteristics and Morningstar ratings. Ratings are relative peer group ratings and do not necessarily mean that the fund had high total returns. **Past performance does not guarantee future results.**

Before investing in any of the Oppenheimer funds, investors should carefully consider a fund's investment objectives, risks, charges and expenses. Fund prospectuses and summary prospectuses contain this and other information about the funds, and may be obtained by asking your financial advisor, visiting oppenheimerfunds.com or calling 1.800.CALL.OPP (225.5677). Read prospectuses and summary prospectuses carefully before investing.

HAPPY DAYS WILL BE HERE AGAIN

WHENEVER AN ABNORMAL economic condition persists, theories are concocted to explain why it will last forever. And why not? The theory-spinners have very receptive audiences who enhance their credibility.

Real GDP growth in the last six years has averaged 0.8% by my estimate, anemic compared with 3.4% in the previous, post-World War II years. So, right on schedule, theories have come out of the woodwork predicting sluggish economic performance forever.

Until their data were corrected by a graduate student, Carmen Reinhart and Kenneth Rogoff convinced many that when government debt exceeds 90% of GDP (the U.S. is now almost at 100%), the economy contracts 1% annually. Columbia Business School's Glenn Hubbard and Tim Kane see "the storm clouds of history" gathering on America's horizon due to political inertia, antigrowth policies, eroding economic vigor and excess government spending.

Niall Ferguson, who teaches at Harvard, believes ever encroaching government is strangling private initiative and threatens representative government, free markets and the civil society. Robert J. Gordon of Northwestern thinks all the large growth-driving technologies are fully exploited and sees nothing ahead to equal the automobile, telephone, radio or jet plane. The icing was *Barron's* Oct. 28 cover, which screamed: "The Snail Economy."

Sure, the economy is five years into deleveraging—about halfway through this gauntlet. But in about four years it will probably resume normal gains, even with a catch-up bonus. Productivity-rich technologies like computing, the Internet, robotics, biotech, telecom

and additive manufacturing are far from fully developed. The Industrial Revolution started in England and New England in the late 1700s. It grew like Topsy, but it was only after the Civil War that it was big enough in the U.S. to turbocharge growth and productivity.

No doubt, the Baby Boomers are aging. But their lack of retirement savings is forcing many to keep working. Unlike Europe, which historically exports people, the U.S. is a land of immigrants, legal and illegal. They will keep the labor force growing. Japan, by contrast, has the longest G-7 life expectancy, no immigration and low fertility. So it has a leaping pool of seniors to feed and a declining population. Europe will follow soon. With the one child per couple policy in China, the number of new labor-force entrants ages 15 to 24 is falling. In fact China is the only country that will get old before it gets rich.

Don't underestimate this nation's indomitable entrepreneurial spirit. Consider the explosion of mobile communications and social media. In Japan and parts of Europe there is cultural antipathy toward entrepreneurs.

The $400 billion annual U.S. current account deficit measures the extent to which foreigners recycle dollars to finance the federal deficit and other shortfalls. It's dropped from an $800 billion rate before the Great Recession, and it will fall further as consumers continue their shift from a 30-year borrowing-and-spending binge to a saving spree, reducing demand for imports.

Also, the shale oil boom means the U.S. is moving toward energy independence. This will reduce our geopolitical vulnerability in the Middle East.

I expect that the dollar will reverse its long slide. My study of currencies since Roman times reveals that the buck will continue to prevail as a global reserve currency. The U.S. is the world's largest economy, and second-place China is slowing as it shifts from being export-driven to domestically led.

CHINA IS THE ONLY MAJOR COUNTRY THAT WILL GET OLD BEFORE IT GETS RICH

We have the globe's deepest, broadest and freest financial markets. Our greenback is involved in 87% of international currency transactions. Despite the downgrade, foreigners continue to plow money into Treasurys.

Sure, the U.S. has its problems. But dire forecasts of slow growth forever are just another case of theory built upon faulty facts. F

A. GARY SHILLING IS PRESIDENT OF A. GARY SHILLING & CO. AND AUTHOR OF *THE AGE OF DELEVERAGING: INVESTMENT STRATEGIES FOR A DECADE OF SLOW GROWTH AND DEFLATION* (JOHN WILEY & SONS, 2011). WWW.FORBES.COM/SHILLING.

THOMAS KUHLENBECK FOR FORBES

The Economics Of Cyber Security

Written by Peter Mills

Malicious cyber activity, from hacking and identity fraud to intellectual property theft, is a growing problem within the global economy. While news reports tend to focus on the impact of cyber crime on consumers, a recent Global Economic Crime Survey, published jointly by the Center for Strategic and International Studies and McAfee, notes that "direct losses to consumers may be the smallest component of the cost of malicious cyber activity."

Although consumer losses—estimated to be around $1 billion annually—are significant, the McAfee survey points out that malicious cyber activity aimed at businesses may cost the global economy as much as $400 billion each year from stolen trade secrets, stock market manipulation and intellectual property theft—which is by far one of the biggest concerns for companies both large and small.

Hidden Costs of Intellectual Property Loss

The loss of intellectual property and confidential business information is one of the most serious, and hardest to quantify, components of cybercrime. The McAfee report notes that the "actual value of intellectual property can be quite different from the research and development costs incurred in creating it."

Take, for example, a recent case in which the FBI arrested a Michigan couple for stealing trade secrets related to hybrid technology from a major automobile manufacturer. The couple planned to sell the secrets to a competitor. If they had succeeded, the financial impact on the company would have been far more devastating than the cost of the R&D alone.

While it may be satisfying to see some perpetrators of cyber crime facing jail time, this is still the exception. Many companies victimized by cyber theft may not be aware for years—or ever—that they've lost their intellectual property or that someone illicitly accessed their confidential information. In these cases, the McAfee report states, "the victim may not know the reason they were underbid, a negotiation went badly or a contract was lost."

Better Awareness of the Threatscape

The risks to intellectual property and sensitive information may be growing, but the means of exploitation haven't evolved that much in a decade, says Doug Steelman, CISO of Dell SecureWorks, a security services provider that helps companies understand what's happening across their networks.

What has changed, Steelman says, is that companies have a better awareness of the threatscape. "The things that threat actors are doing—for example, spear-phishing exploitation, client-side browser exploitation, Internet-facing web application exploitation, and denial-of-service attacks—are activities they've been doing for probably ten years now. I think that what's increasing is the understanding of what the threat actors are doing."

That's good news, he explains, because every organization needs to understand that there is a real risk from a variety of malicious attackers bent on profiting from trade secrets.

"Intellectual property theft is a concern for every company that's connected to the Internet," Steelman says. No matter who you are or what your company does, "there's likely to be a threat-actor group, whether it's a criminal or a nation-state or a hacktivist group, interested in taking that information or modifying that information or disrupting your ability to deliver that information."

A great many information security threats come from unknown quarters, but Steelman points out that about 20% of Dell SecureWorks' incident-response engagements are the result of disgruntled employees or insiders. He says that insiders often have access to more information than they need, and that the "principle of least privilege," in which users have access only to the things they need for their jobs, is an important tactic in protecting against insider threats.

Obviously, insiders are uniquely placed to get their hands on sensitive information. "That's very difficult," Steelman says, "because you've consciously made the decision to give someone access, and if they abuse that access to take information or disrupt operations, that can be a more devastating problem."

Bridging Communication With the C-Suite

While the understanding of the threat vectors is getting better, communication of the threats to senior executives is still lacking. Steelman believes that the C-suite views cyber threats differently than other types of business risks. That's in part because in the world of cyber security, the language used doesn't mesh with the language that senior executives are used to hearing.

Steelman says that Dell SecureWorks has developed a cyber security profit-and-loss decision-making framework that communicates in plain language what the C-suite needs to understand. "We call it a common operational picture, or COP. The C-suite understands the language of P&L, but to date there is no 'cyber P&L.' Senior leaders usually have to take the word of the security leader briefing them. We believe we have created an operational construct and measurement to enable tactical and strategic decision making with respect to cyber."

"Intellectual property theft is a concern for every company that's connected to the Internet."

—**Doug Steelman**
CISO, Dell SecureWorks

Visibility Helps Prevent Loss

No matter where threats originate, effective cyber security can only be accomplished with appropriate visibility into what's happening on corporate networks. "It seems intuitive," Steelman says, "but if you can't see the threat, you've got no chance at preventing an attack." That means companies need ways to look at and understand network traffic, user Web surfing, e-mail distribution and so on.

Dell SecureWorks security services enable visibility into its customers' networks, which leads to threat interdiction or, at a minimum, detection, Steelman explains. "Prevention will eventually fail. When it does, organizations must ensure they can see what's happening on their networks. Otherwise, the way they find out about embarrassing exploitation of their infrastructure is through the press or a visit from law enforcement."

The economics of cybersecurity

1 Test defenses

2 Assess vulnerabilities

3 Invest to reduce risk

Formula for success

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"Prized Possessions" in the IP Space

The threat to intellectual property has grown tremendously as companies have transitioned from tangible to intangible assets in a post-industrial, knowledge-worker society, says Chandra McMahon, vice president, Commercial Markets, Cyber Security, for Lockheed Martin's Information Systems and Global Solutions business.

"There's a lot more for adversaries to gain by stealing intellectual property than there is from some of the assets that actually get created or manufactured," McMahon says, because "a company's prized possessions, regardless of industry, are in the IP space."

Intellectual property, she explains, can be anything from research and development to manufacturing processes to financial data. "Companies are really looking closely at what they consider their crown jewels in terms of information, and are trying to take action to better protect them."

No company is likely to be off the radar of cyber attackers, McMahon reports. "I have yet to come across a company that says, 'I haven't had to deal with hacktivists or cyber criminals or attacks from nation states.'"

> "A company's prized possessions, regardless of industry, are in the IP space."
>
> **—Chandra McMahon**
> Vice President, Commercial Markets, Cyber Security, Lockheed Martin Information Systems and Global Solutions

Lessons Learned From Determined Cyber Attackers

As a large federal government contractor, Lockheed Martin not only helps defend government and commercial networks, it also is a target of sophisticated nation-state attacks. McMahon, who previously served as Lockheed Martin's CISO, says that defending against these attacks, and having high visibility into the attacks against commercial and critical infrastructure customers, means the company has a unique perspective on cyber threats. "It gives us insight into a broad array of adversaries and the different types of tactics and techniques that they're using," she explains.

Determined attackers provide the company with a wealth of threat intelligence. "The whole premise to our approach to cyber security is to be able to gather intelligence around the adversaries, around their tactics and techniques, and then use that intelligence so it's actionable," McMahon says.

This intelligence is used for the defensive countermeasures that are built into Lockheed Martin's solutions. In fact, the company has been credited with identifying several zero-day vulnerabilities (previously unknown vulnerabilities that are hard to detect and defend against), and coming up with ways to block these attacks.

The company has established world-class centers focused on research and development in cyber security called the NexGen Cyber Innovation and Technology Center to innovate and collaborate on new defensive capabilities for customers. Today, there are centers located in Maryland, the U.K. and Australia.

The Weakest Link

No matter how well you protect your own information or employee data, intellectual property is ultimately only as secure as the weakest link in the supply chain. McMahon emphasizes that it's critical to consider the entire "cyber ecosystem" in which information travels or is stored.

Lockheed Martin works closely with its suppliers to ensure they have a heightened awareness of the threatscape and participate in information-sharing programs so that they can adequately defend themselves. "In some cases, we're looking to help those companies bolster their defenses through the use of Lockheed Martin's own cyber security services and solutions," she says.

The threats to intellectual property and confidential business information are real, and the results can be devastating—not only to the companies that suffer the losses, but to the employees of those companies, the communities where they live and work, and the global economy. Being prepared to defend against and mitigate cyber attacks, with the assistance of cutting-edge research, technology and expertise, should be a cornerstone strategy for every company. ■


CYBER INTELLIGENCE
STREET SMART
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LOCKHEED MARTIN

WILLIAM BALDWIN — YEAR-END CHECKUP

JANET YELLEN STOCK PORTFOLIO

BONDS ARE GOING to get killed. Are you ready for this?

The depredations on people who lend money have been a long time coming, and they will continue under the dovish monetary policy of the next Federal Reserve chairman. You should be lightening your exposure to rising interest rates and inflation. I'll show you three ways.

What exactly has the Fed been doing the past five years? The party line is that it is striving to stimulate the economy. Wrong verb. It is striving to accommodate. It is making room for the 535 spendthrifts who disburse federal money but find the business of collecting it via taxes to be unduly burdensome.

How to pay the bills? Step one: The Treasury issues bonds. Step two: The Fed buys them, paying with newly created money.

What you have here is the funding of aircraft carriers, schools and Medicare with a printing press. The U.S. is following a fiscal practice that has been embraced by many governments that run short, such as Argentina, Zimbabwe and the Confederate States of America.

John Maynard Keynes provides inspiration to advocates of easy money. In his 1936 classic, *The General Theory of Employment, Interest and Money* (Palgrave Macmillan), he decries the scarcity of capital created by the money-hoarding "rentier" class, that being the people who live off bond coupons. His proposed solution is for the government to undertake what he whimsically calls the

"euthanasia" of the bondholder.

If you are a retiree living off interest on bank CDs, you know at first hand about this process. If you are younger, you should think about what it's going to do to your 401(k).

As the owner of a long-dated bond, you can get poor very quickly if interest rates shoot up. That would crash bond prices. But even if the Fed succeeds in maintaining artificially low interest rates forever, you can be euthanized via inflation. You cash in the bonds at maturity and they don't buy anything.

How to lessen the damage from Keynesian economics? The first method is to replace some of the bonds in your portfolio with stocks. This creates a hazard of its own. Stocks, overpriced at the moment, just might correct 35% next year. Shift into stocks only if you can shrug off the next bear market.

Method two: Take out a mortgage. If you buy a $500,000 house with $100,000 down, you have, in effect, taken a $400,000 short position in the bond market. Your mortgage would be a nice counterbalance to $400,000 worth of bonds in your retirement fund. Now, when inflation returns, the burden of your debt to the bank is eroded as quickly as the value of your savings.

Yes, it makes sense to be simultaneously long fixed income and short fixed income, if you can get a low rate on the mortgage and wrangle a tax arbitrage. You're a successful arbitrager if your mortgage interest is tax-deductible and your bond coupons are sheltered.

Method three: Have corporations that you invest in do the borrowing. Prefer shares of companies with leveraged balance sheets.

Among companies that like to borrow money: **SEALED AIR (SEE, 32)**, the Bubble Wrap outfit, and **HCA HOLDINGS (HCA, 45)**, the hospital chain.

When you buy $6,200 worth of **EQUITY RESIDENTIAL (EQR, 51)** you are indirectly buying $10,000 of real estate and financing it with $3,800 of IOUs. Now you can be more sanguine when the Fed achieves its long-sought goal to cheapen the dollar. As landlord you jack up the rent. As borrower you repay the mortgage with junk money. F

HOW TO SURVIVE THE FEDERAL RESERVE'S EXPLOSIVE MONEY SUPPLY

THOMAS KUHLENBECK FOR FORBES

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NINE FORMULAS FOR WEALTH BUILDING

The secret to financial success can sometimes be captured in a simple equation.

BY WILLIAM BALDWIN

If you want to retire in style, you'd better know the numbers. We have some formulas that will provide them.

The objective here is to steer you to wiser investments and give you some insights about what will happen to your assets and liabilities over time. The formulas are not complicated. They all fit on the back of an envelope. Some are adapted from experts. Some we concocted.

With these rules of thumb, you can answer questions like these: Do I have enough in my 401(k)? Will a mortgage refi pay off? What will it cost to send my kids to college? When is a closed-end fund a bargain?

1. WHAT CAN MY PORTFOLIO EARN?

$$R=5*S+2*B-E$$

Utterly unpredictable as markets are from month to month, their returns over long periods (meaning: decades) are not a great mystery.

In this equation, R states, in percentage points, the expected real return—return, that is, above and beyond inflation. S is the fraction of your portfolio invested in stocks, B the fraction in bonds. E is the percentage you lose every year to expenses.

Example: You have the customary 60/40 mix of stocks and bonds, and the funds you are invested in eat up 0.5% a year in fees. Then $5*0.6 + 2*0.4 - 0.5 = 3.3$.

Now, 3.3% a year is a decent return, but it may be a bit less than you were hoping for. It's enough to turn the dollar you put into a 401(k) at age 25 into $4.04 at age 68. That is, scrimping today will enable you to buy four times as much stuff in retirement.

The formula doesn't allow for taxes, which will come out of your retirement money at some point—at the back end if you have a conventional 401(k) or up front if you opt for a Roth account.

Is a 5% real return on stocks realistic? They've done better over the past century, but they are very expensive today. John Bogle, the Vanguard founder and wise man of investing, is telling people to expect a 7% nominal return less maybe 2% for inflation, which nets to 5% real.

Bonds doing 2%? That takes some optimism, and a willingness to invest in riskier corporate debt. Treasury bonds are safer, but the 20-year, inflation-protected variety yields only 1.3%.

Take four directives from the formula:

- If you are young and can stand the volatility, aim for a stock-heavy portfolio.
- Don't have cash. It earns nothing beyond inflation.
- If you see a projection about your retirement or about what some financial product will do that assumes a return like 8%, be wary. The fellow doing the projecting probably didn't allow for inflation or expenses.
- Cut your expenses to the bone. If they're half a point higher than they are in our example, leaving you with a 2.8% real return, the $4.04 shrinks to $3.28.

2. IS MY 401(K) ON TRACK?

AGE	MULTIPLE OF SALARY
35	1X
45	3X
55	5X
67	8X

The table comes from a study conducted last year by Fidelity Investments. Its experts made some midrange assumptions about investment returns and spending needs in retirement, and came up with these guidelines for how much you should have salted away.

If you are making $100,000 at age 35, you should have that much in your retirement account. If you retire from a $200,000 job at age 67, you should have $1.6 million.

To get to these mileposts, the analysts concluded, you should be saving 6% of your income when you are young and gradually scale up to 12%. Your employer needs to chip in 3%. Given the $17,500 cap on 401(k) contributions for workers under 50, better-paid folk will have to do some saving outside the thrift plan.

3. WHAT DO YOU SACRIFICE FOR YIELD?

$$R = Y + G$$

Everyone wants a portfolio that combines a fat yield with high growth. Can you get that? This formula says you can't. The higher your yield, the lower your growth.

You can be lucky with any one stock, of course, or unlucky. But you can't engineer an outsize return by buying high-dividend stocks and expecting them to grow as fast as low-dividend stocks.

A reasonable expectation for the stock market is a 7% nominal return (before allowing for inflation). The average company yields 2% and plows back enough profit to keep the dividends and share price growing 5% a year.

If you buy a zero-yielder like AutoZone you can expect more than 5% in appreciation. If you buy a super-high-yield stock like Annaly Capital Management you're likely to see a shrinkage in the share price and dividend. It's jam today or jam tomorrow.

The tradeoff between appreciation and yield holds true for bonds, too, although for bonds the R is lower than 7%.

TAKE YOUR PICK: GROWTH OR YIELD

THE TRADEOFF FIGURES INTO CURRENT YIELDS AND OUR PROJECTIONS FOR PRICE APPRECIATION.

SECURITY / BUSINESS	SOURCE OF GROWTH OR DECLINE	YIELD	GROWTH[1]
ANNALY CAPITAL MGMT / MORTGAGE BANKING	POSSIBLE EROSION OF BOOK VALUE	11.0%	−4.0%
JUNK BOND PORTFOLIO / VARIOUS	DEFAULTS	6.2	−1.6
TOTAL (ADR) / OIL	DRILLING	5.7	1.3
20-YEAR TREASURY BOND / DEFICITS	NONE	3.6	0.0
20-YEAR TIPS / DEFICITS	INFLATION ADJUSTMENT	1.3	2.0
AUTOZONE / PARTS RETAILING	SHARE BUYBACKS	0.0	7.0

[1]NOMINAL (BEFORE SUBTRACTING INFLATION). *SOURCES: VALUE LINE; FORBES.*

#159

Ron Baron: "Don't waste your time short-selling. Show me the short-sellers' yachts."

#160

If you earn too much to contribute to a Roth IRA, fund a nondeductible IRA and convert it.

#161

If divorcing, get a "QDRO" from the court that allows you to split retirement assets without owing immediate tax.

#162

Claim the American Opportunity Tax Credit for your kid's college—if you're eligibile.

#163

Don't make multiple $9,900 bank deposits—the government might seize your money and keep it on the grounds you're trying to skirt anti-money-laundering laws.

#164

Do a bond fund swap to harvest tax losses.

#165

Gain funding—and a market—on Kickstarter.

#166

Barry Ritholtz: "Never confuse investing with trading."

#167

Don't let the tax tail wag the investment dog.

#168

Hold illiquid assets in a Roth IRA, not a regular IRA.

#169

Be like Peter Thiel and put hot startup stock in a Roth IRA to make all gains tax free.

#170

Learn about your fiancé's debts, before you walk down the aisle.

#171

Beware high-yield investments pitched as being "like a bank CD."

#172

Watch out for stock hoaxes on Twitter.

#173

Be leery of pitches involving a self-directed IRA.

BARON: BLOOMBERG; RITHOLTZ: SCOTT EELLS / BLOOMBERG THIEL: DAVID PAUL MORRIS / BLOOMBERG NEFF: UNIVERSITY OF PENNSYLVANIA / AP PAGE: BLOOMBERG

4. HOW MUCH WILL COLLEGE COST?

$$C = 0.05 * (A - \$50{,}000) + 0.46 * (I - \$30{,}000)$$

C is the amount that a family is supposed to chip in per year when one or more kids are attending school and getting financial aid. A is the family's available assets, defined to include home equity but not retirement accounts. I is income after taxes but before any contributions to retirement accounts.

What's going on here? The college financial aid office lets you keep a small pot of cash for emergencies but each year wants to grab 5% of anything beyond that. It will let you have a subsistence-level income but taxes anything beyond that at 46%.

The "net cost" calculators on college websites boil down to something close to this equation, at least at the several hundred more selective institutions using the "Profile" method of figuring need-based aid. The formula comes from Troy Onink, whose firm, Stratagee, gives advice on college cost planning.

Example: The parents have $150,000 of assets, not counting retirement accounts. They have an income, after state and federal income taxes, of $160,000. They have two children in expensive private schools.

The formula says this family will have to cough up 0.05*($100,000) + 0.46*($130,000) = $64,800 a year, or $32,400 per child. If the sticker price (tuition, room and board) at one of the schools is $52,400, that kid should get $20,000 of aid.

Onink's formula yields only an approximation; for a more precise result you have to input a lot of detail, such as family member ages, into a college's website. But it gives you a very good idea of where you will come out.

The formula is a powerful reminder that you should do your retirement saving early. When the kids are young, fill up your 401(k) before you put even a dime in a college savings plan. Come college time, the retirement account will be sheltered but your other assets will be taxed away. And during college years your pockets will be picked so clean you may be unable to continue 401(k) contributions.

#174
Benjamin Graham: "It is absurd to think that the general public can ever make money out of market forecasts. For who will buy when the general public, at a given signal, rushes to sell out at a profit?"

#175
Avoid sudden lifestyle changes after a windfall.

#176
Automatically divert money from your paycheck into savings to the point where it hurts.

#177
Retire to a place without state estate or inheritance taxes.

#178
Benefit from 20/20 stock market hindsight by reversing a Roth conversion if stocks tank.

#179
Donald Trump: "Sometimes your best investments are the ones you don't make."

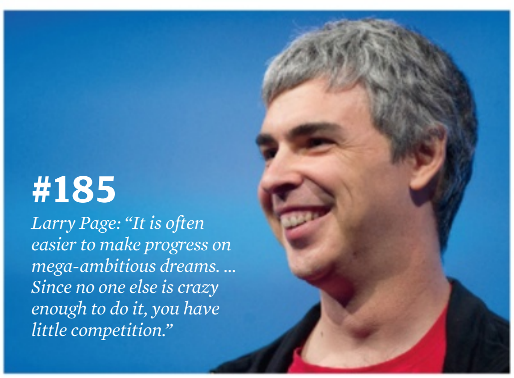
#180
Ben Stein: Don't move into a neighborhood of poverty. Avoid any situation that could leave you with too much unsecured debt.

#181
Get an entrepreneur mentor from SCORE, an organization of retired business folks.

#182
Tap your ethnic community for business funding.

#183
To get the best effort and thinking from employees in your startup, give them stock options.

#184
Like Spanx's Sara Blakely, solve an irritating problem.



#185
Larry Page: "It is often easier to make progress on mega-ambitious dreams. ... Since no one else is crazy enough to do it, you have little competition."

#186
Don't blindly rely on a target date fund in your 401(k).

#187
Don't let your advisor manage you.

#188
Don't rely on regulators to protect you from financial fraud.

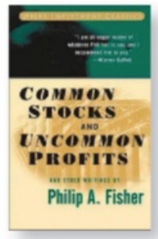
#189
Warren Buffett: "What is smart at one price is dumb at another."

#190
With large-cap stocks, focus more on cash flow than earnings.

#191
Strong stocks tend to stay that way. Buy high and sell higher.

#192
Don't let family wealth become a curse on your children.

#193
Start your kid at the bottom of your business.



#194
Read Common Stocks and Uncommon Profits *by Philip A. Fisher.*

#195
Buy a gift annuity from your alma mater.

#196
John Neff: "When you feel like bragging, it's probably time to sell."

#197
Mine your closet for eBay gold.

#198
Mine your network for investment ideas.

#199
Warren Buffett: "The risks of being out of the game are huge compared to the risks of being in it."

#200
Sell put options like Warren Buffett does.

#201
Buy stocks when a magazine cover declares "The Death of Equities."

#202
Don't count on an inheritance. If you get one, don't blow it.

#203
Leon Cooperman: "Getting rich takes hard work, a passion for what you do and luck."

#204
If you win the Powerball jackpot, hire a tax advisor before making any decisions.

#205
Hunt down pensions from old employers.

#206
If you're 50 or older, with substantial self-employment income, use a custom-designed defined benefit plan to shelter $100,000 a year or more from tax.

#207
Max out your 401(k) contributions: In 2014 you can contribute $17,500, or $23,000 if you're 50-plus.

#208
If your marriage is shaky, make a copy of all financial documents.

#209
If your spouse is shady, file separate tax returns.

#210
Burton Malkiel: "Never buy anything from someone who is out of breath."

5. HOW QUICKLY DO I EARN BACK REFI COSTS?

$$\text{YEARS} = \frac{[\text{AFTERTAX POINTS}] + [\text{OTHER COSTS}]}{[\text{AFTERTAX INTEREST SAVINGS}]}$$

The time it takes for your mortgage refinancing to pay off depends on your upfront costs and on your annual interest savings. It also depends on your tax situation. For most homeowners, interest is deductible and the points fee is also deductible. But other costs, such as an appraisal or title insurance, are not.

Example: You're refinancing a $200,000 mortgage in order to lower your interest rate by half a point, which will be worth $1,000 a year. The lender wants two points, or $4,000. You have $1,200 in other costs. You're in a 40% tax bracket (state and federal combined).

Payback time = ($2,400 + $1,200) / $600 = six years. If you're likely to move in five years, you shouldn't do the refi.

Deductions for points are supposed to be spread over the life of the new mortgage. But those deductions will be accelerated in many cases. You'll get a deduction quickly if, for instance, this refi is your second, so that you have a remaining balance from the earlier one to claim. You also speed up the tax benefit if you either refinance again or move. So this formula, which for simplicity assumes your points turn into deductions fairly soon, gives you a pretty good approximation of your payback. It's far more accurate than naive calculators that ignore tax effects.

Takeaway: If you are in a high tax bracket or if your nondeductible costs are high, you're going to need a long time for a refinancing to pay off.

6. SHOULD I USE THE HOME-STATE 529?

$$E \overset{?}{<} T/N + 0.17\%$$

E is the expense ratio on your state's college savings plan. T is the percentage of your contribution you'd get back in state tax benefits. N counts the years until you use the money. The 0.17% is the cost of the cheap New York plan you could buy instead.

This inequality asks the question: Is the reward for investing locally good enough to overcome the high cost of a local plan? Twenty-eight states reward their citizens for loyalty, and you need this calculation to know whether to take the bait. (If you live in one of the other 22 states, the choice is simple: Send your money to New York.)

Example: If you put $5,000 into your home-state plan, you'd get a deduction or credit worth $250, or 5% of that amount. Your child will be in college ten years from now, so T/N = 0.5%. Then the home-state plan has to be cheaper than 0.67% a year for it to be a buy.

GREAT STATES FOR COLLEGE SAVING

THESE COMBINE ECONOMICAL PLANS WITH GENEROUS TAX BENEFITS FOR RESIDENTS WHO STAY AT HOME WITH THEIR 529 MONEY.

STATE	EXPENSE RATIO[1]	MAXIMUM DEDUCTION[2]
ILLINOIS	0.18-0.69%	$20,000
MICHIGAN	0.20-0.30	10,000
NEW YORK	0.17	10,000
SOUTH CAROLINA	0.05-0.25	NO LIMIT
WEST VIRGINIA	0.29-0.40	NO LIMIT
WISCONSIN	0.08-0.45	3,000[3]

[1]RANGE OF ASSET-BASED EXPENSES. [2]ON A JOINT RETURN. [3]PER BENEFICIARY. *SOURCE: SAVINGFORCOLLEGE.COM*

#211
Know when to fire your financial advisor.

#212
Be skeptical of "principal protected" products—ask how much is guaranteed and at what cost.

#213
Be wary of companies that have gone public in reverse mergers.

#214
Low-priced stocks aren't necessarily cheap.

#215
Make sure a stock's dividends are less than its cash flow and likely to remain that way.

#216
Warren Buffett: "Risk comes from not knowing what you're doing."

#217
Beware unlisted REITs.

#218
Save remodeling receipts to add to your home's basis and cut gains taxes when you sell.

COOPERMAN: TIM PANNELL; MALKIEL: PETER FOLEY / BLOOMBERG; HOUSE: CARROLL SEGHERS / NEWSCOM; BUFFETT: JACK WELCH

7. HOW LONG WILL IT TAKE FOR A DEFERRED ANNUITY TO PAY OFF?

$$\text{YEARS} = \frac{\log(0.6)}{\log(1.0525) - \log(1.055)}$$

The beauty part in those variable annuities sold by brokers is that your earnings compound tax free until you take the money out. The ugly part: stiff fees.

This formula assumes you are buying stocks that earn 7%. Outside the annuity, we'll hypothesize, your portfolio incurs a tax of 25%, meaning that your money compounds at 5.25% (that's the 1.0525 in the denominator). Inside, it compounds tax free but gets hit with a typical 1.5% fee (resulting in the 1.055 factor). When you exit the annuity, each dollar of profit turns into 60 cents after taxes (that's the 0.6 in the numerator). Alas, one of the features of annuities is that they convert low-taxed dividends and capital gains into high-taxed ordinary income.

You can pull those logarithms off a dime-store calculator. Answer: 215 years. Don't buy stock annuities unless you are sure to remain invested until the year 2228.

What if the portfolio will be invested in bonds paying 4%? Then the annuity makes sense only for people who can hold on until 2536.

8. WHICH ETFS ARE THE BEST BUYS?

$$C = E + B/N - L$$

To figure the annual cost of an exchange-traded fund, start with its stated expense ratio (E). Now add the percentage bid/ask spread (B), divided by the number of years you'll own the thing (N). Subtract L, the benefit you get from the operator's ability to lend out pieces of the portfolio for a fee to short-sellers.

The expenses and spreads are readily available from Morningstar and elsewhere. Securities lending data has to be dug out of financial statements. For funds that own small-company shares this can be a big number, more than enough to cover all of the overhead expenses.

We've done the work for you. The table shows six cheap ETFs, with annual cost figures that assume you stay put for ten years.

ETFS FOR CHEAPSKATES

SOME OF THESE MORE THAN COVER OVERHEAD WITH STOCK-LENDING REVENUE.

TICKER	FUND	TEN-YEAR COST[1]
VBK	VANGUARD SMALL-CAP GROWTH	–$154
SCHA	SCHWAB U.S. SMALL-CAP	–68
XOP	SPDR S&P OIL & GAS EXPLOR & PROD	–38
VEA	VANGUARD FTSE DEVELOPED MARKETS	27
VTI	VANGUARD TOTAL STOCK MARKET	43
SCHB	SCHWAB U.S. BROAD MARKET	49

[1]CUMULATIVE COST OF INVESTING $10,000 FOR A DECADE. REFLECTS BID/ASK SPREAD, EXPENSE RATIO AND SECURITIES LENDING REVENUE, BUT NOT TRADING COMMISSION. *SOURCES: BLOOMBERG; INTERACTIVE DATA VIA FACTSET RESEARCH SYSTEMS; MORNINGSTAR; FUND VENDORS.*

#219

Buy no more house than you can afford.

#220

Don't accept a high property tax assessment of your home—you can appeal and talk it down.

#221

Don't assume you should buy a house. Start by calculating rent-versus-buy costs for homes in your market.

#222

If you have no time for complexity, diversify your portfolio with just three mutual funds.

#223

Buy a deferred fixed annuity to make sure you don't outlive your money.

#224

Build your own ersatz retirement annuity with savings bonds.

#225

Boost income with closed-end, covered call funds.

#226

Burton Malkiel: "Trust in time, rather than timing."

#227

Delay retirement as long as you can.

#228

But don't assume in your planning that you can work full-time until 70.

#229

Compare insurance costs before choosing a new car model.

#230

Then go shopping for that model at month's end.

#231

To save even more, don't own a car, share one.

#232

Hold actively managed mutual funds—the kind that pass on the most-short-term gains—in tax-deferred retirement accounts.

#233

Hold real estate in your IRA—but carefully.

#234

Don't let the groupthink of investment clubs cloud rational investment analysis.

#235

Warren Buffett: "Diversification is a protection against ignorance."

#236

Follow top money-manager moves. Even the great investors piggyback on other smart investors.

#237

David Dreman: "The time to buy is when there's blood on the streets."

#238

Beware superstar CEOs with weak boards.

#239

Compare benefits (including options) before switching jobs.

#240

Find out how your 401(k) rates at BrightScope.com; if expenses are high or fund choices poor, lobby for a better plan.

#241

Don't give Uncle Sam an interest-free loan; adjust your withholding so you don't overpay your taxes.

#242

Even if you can't pay, file your tax return.

#243

Take a cue from Mark Zuckerberg: Get maximum tax savings for your charitable buck by giving appreciated assets to a donor-advised fund or supporting organization.

9. WHEN IS A CLOSED-END A BARGAIN?

E ?< DY

A closed-end fund differs from the usual kind (called an "open-end" or "mutual" fund) in having no exit door. When you want out, you can't ask the operator to send you cash; instead, you have to get some new investor to take your place. Result: Shares often trade at a discount to their asset value.

Closed-ends, then, are something of a roach motel, but they can be good buys if you get in cheaply enough. This formula tells you what's cheap.

The question being asked: Is the fund's expense ratio (E) less than the product of its discount (D) and its yield (Y)? If yes, consider buying.

Example: A fund with a portfolio worth $20 per share trades at $17, or a 15% discount. Its expense ratio is 0.6%. It pays out $1 a year, or 5% of the asset value. The formula likes this fund because 0.6% is less than 0.75% = 15% times 5%.

It doesn't matter whether the dollar being distributed comes from dividends, capital gains or a return of capital; all that matters is that it's cash. The fund is cheap because that dollar cost you only 85 cents, so you make a 15-cent profit when it arrives in your mailbox. The 15 cents more than covers your 12-cent annual cost of ownership.

In today's bull market (at least for stocks), there aren't many closed-ends that rate as bargains. But wait until the next crash. Desperate sellers will be unloading at nice discounts. For now our list of cheap funds is short.

CLOSED-END BEST BUYS

BUY A DIVIDEND DOLLAR FOR 91 CENTS OR LESS.

TICKER	FUND	DISCOUNT	YIELD[1]	EXPENSES[2]
JGT	NUVEEN DIVERSIFIED CURR OPP	–15.9%	8.5%	0.99%
ACG	ALLIANCEBERNSTEIN INCOME	–14.6	5.0	0.55
MIN	MFS INTERMEDIATE INCOME	–9.1	8.6	0.71
MSP	MADISON STRATEGIC SECTOR	–13.9	7.5	0.98
NXP	NUVEEN SELECT TAX-FREE	–9.3	4.5	0.28

[1]ALL PAYOUTS OVER PAST YEAR DIVIDED BY RECENT NET ASSET VALUE. [2]EXCLUDES INTEREST.

SOURCES: MORNINGSTAR; FORBES.

#244

Read Market Wizards *and* The New Market Wizards *by Jack D. Schwager.*

#245

Warren Buffett: "Time is the friend of the wonderful business, the enemy of the mediocre."

#246

Don't chase yesterday's winners unless they're still winning.

#247

Purchase "own occupation" disability insurance.

#248

Remember that market underperformance—just like costs—compounds.

#249

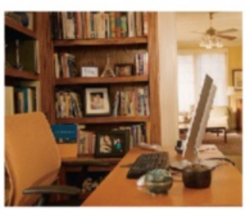
Ramit Sethi: Set up systems to automate desired behaviors. Leave your gym clothes at the foot of your bed. Have contributions to savings automatically deducted.

#250

Open a spousal IRA for a stay-at-home husband or wife.

#251

If you work from home, get a rider on your homeowner's insurance policy to protect you if the FedEx man slips.



#252

To maximize college aid, make Roth 401(k) contributions, not pretax ones, while your kids are in college.

#253

Like Warren Buffett, make concentrated bets in stocks that you have high confidence in.

#254

Live dangerously; invest your emergency fund instead of keeping it in cash.

#255

Barry Sternlicht: Study outliers rather than eliminate them. You can learn everything there is to know about the industry or the player from the company that is performing better or worse.

#256

Don't wait until expiration. Always look to buy back cheap options.

#257

Most stock market gains since 1950 have occurred in the November-April period.

#258

Over the long run, small-cap stocks have outperformed big blue chips.

ZUCKERBERG: JACK WELCH; HOME OFFICE: STEWART COHEN / ALAMY; COLLEGE: CRAIG WARGA / BLOOMBERG

Macedonia

part II of a series

A PRIME INVESTMENT DESTINATION

ERIC NATHAN / ALAMY

Macedonia boasts one of the best-performing economies in Europe. It registered a 3.4% GDP rise in the first six months of 2013, three points above the European Union average. For such a modest-sized country, occupying a territory of just 10,000 square miles and with a population of just over 2 million, Macedonia punches well above its weight in economic strength, investment potential and development prospects.

Thanks to a raft of free-trade agreements signed in recent years with the EU, the European Free Trade Association (EFTA) and regional powerhouses like Turkey and Ukraine, Macedonia provides preferential access to a market of more than 650 million consumers. The EU ranks as Macedonia's leading trade partner, with around two-thirds of all goods exported in 2012 destined for the other 27 member states, while more than 58% of the country's imports originated in the EU.

Macedonia also offers great potential for additional growth in the future, with EU-leading fundamentals—such as a public debt ratio of 33.8%, the fourth lowest in Europe; annual inflation of 2.8% projected for 2013; a budget deficit of just 3.9% in 2012—and a firm business-friendly vision under the leadership of Prime Minister Nikola Gruevski, who took office in August 2006 and was re-elected in 2011.

In October 2013, Fitch Ratings confirmed Macedonia's long-term currency and bond ratings as BB+, with a stable outlook. Fitch predicts that GDP will continue to expand by 2.7% in 2013, before strengthening in 2014–15 as exports increase and significant public investment gains momentum. While challenges—such as unemployment, which stood at 28.8% in the second quarter of 2013, despite a drop of ten points—remain, most of the country's key economic indicators are pointing in the right direction.

"Macedonia is a dynamic European economy, with solid macroeconomic fundamentals," confirms Zoran Stavreski, the nation's vice prime minister and minister of finance. "We have the most attractive tax regime in Europe and technological industrial development zones (TIDZs) where we provide ten-year tax holidays and even cash incentives."

With a flat 10% corporate and personal income tax rate, and no levy on reinvested or retained profits, Macedonia aims to let those who generate capital in the country reap the benefits in the short term, with a view to stimulating greater investment in the long term. Foreign investment in Macedonia's TIDZs already accounts for over a fifth of total exports by value, and the trend looks set to continue, adding still more capacity in 2014 and beyond.

Paving the Road for International Investors

Stavreski believes that while Macedonia's fiscal regime is undoubtedly an important factor, the country's commitment to creating a pro-business climate also has served as a magnet for overseas capital. According to a 2012 World Bank report, inflows of foreign direct investment accounted for 4.5% of the nation's $10.4 billion GDP in 2011.

Over the last six years, Prime Minister Gruevski's government has made an effort to "streamline procedures to create a simple, clear environment for investors," Stavreski notes, "including a fast track for establishing companies and getting licenses, as well as reinforcing investment protection."

In line with EU economic development guidelines, the Gruevski government launched its National Strategy for Sustainable Development in 2010, adopting a "bottom-up approach to policy-making that enabled the private sector to be directly involved in the process," Stavreski points out. The National Council for Sustainable Development includes public and private sector players, who work together to upgrade the nation's regulatory and institutional framework while ensuring effective stakeholder consultation.

The result is that Macedonia has an "institutional architecture that is unique in Europe, in terms of our approach to investment," Stavreski says. "We combine institutions that are directly in charge of looking for investors, putting them in contact with top government officials, solving any problems by creating tailored programs, and following up on the investment as it develops."

Ideal Business Conditions

The commitment to making it as simple as possible to invest and set up a new venture—by removing red tape and bureaucratic hurdles, and then going the extra mile to ensure it prospers, providing support every step of the way—has helped Macedonia move up the World Bank's overall business climate rankings from 94th place in 2006 to 23rd in 2012.

At the same time, Macedonia remains one of the most competitive places to do business in southeast Europe when comparing operational overheads such as salaries, logistics and regulatory risk. Wages in Macedonia are up to 50% lower than in other eastern European countries. Coupled with low taxes and duty-free access to markets and suppliers, manufacturing costs in Macedonia rival those of China, enabling investors to benefit from proximity to European markets while paying Far Eastern prices.

High-caliber multinationals are committing to ventures in Macedonia.

However, Macedonia's value proposition is not just cost-efficient, it is also effective. The country's advanced telecommunications infrastructure and highly trained workforce—with plenty of multilingual graduates and engineers available for hire—allow it to compete not just in cost but also in capacity with business process outsourcing (BPO) giants like India.

These key factors have already attracted many international investors with strong interest in the agribusiness, electronics, food processing, health products and high-tech sectors. In the automotive sector alone, multinationals of the caliber of Johnson Matthey, Johnson Controls, Kemet, Van Hool, Kromberg & Schubert, and Draexlmaier have committed to ventures in the country.

According to the minister, corporations, faced with recurring unrest across North Africa and lingering economic hardship elsewhere in Europe, are constantly on the lookout for investment destinations that offer political stability and economic predictability without requiring sacrifices that affect the business's bottom line. In his opinion, Macedonia offers a hard-to-beat combination that is worth exploring.

Pristine water and a rich heritage make Lake Ohrid an ideal tourist destination.

Tourists Welcome

Macedonia is also drawing in leisure travelers, with the government's Skopje 2014 project aiming to put the national capital on the global tourism map. A multimillion-dollar initiative, comprising the construction of some 20 government buildings and museums, as well as 40 monuments celebrating the country's rich heritage, Skopje 2014 is designed to attract many more tourists than the 650,000 who visited in 2011.

"Macedonia has made great strides in the last couple of years, and we are at a turning point for major developments in the tourism sector," Stavreski says. "This is one of the few places in Europe where smart developers can build great places and market them as unique experiences to appeal to European and other global travelers."

While many of its rivals are still suffering from the effects of the global recession, Macedonia possesses a "dynamic, emerging economy with a stable macroeconomic situation, an enabling business environment, an attractive tax package and pro-business policies. We have achieved twice the growth of Europe in the past seven years and have very good potential," he continues. ❖

Look for the third report in this series on Macedonia in the March 24, 2014, issue of Forbes magazine.

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The sponsors of this report have provided all statistical data.

PUTTING INTEL INSIDE YOUR 401(K)

It would take the wisdom of Solomon to solve the nation's retirement crisis. Dimensional Fund Advisors is turning to a Nobel laureate instead.

BY MATT SCHIFRIN

Chairman David Booth hopes geek power can propel DFA deeper into the retirement market.

MICHAEL THAD CARTER FOR FORBES

If there is a gigantic socioeconomic problem facing this nation that should be weighing heavily on policymakers, it's the retirement income crisis.

Fact: There are 80 million baby boomers, and every single day for the next 17 years roughly 10,000 will turn 65.

Fact: According to the Federal Reserve's most recent Survey of Consumer Finances, only 52% of Americans have saved anything for retirement, and for those aged 55 to 64 who have retirement accounts the median balance was $100,000.

Factor in life expectancy already averaging 85 or so, plus a near-zero interest rate Fed policy, and you get a bleak future for masses of old folks. Think trailer park living and early bird specials at best; working until their dying days at worst.

Enter Dimensional Fund Advisors, the Ivory tower mutual fund manager with $315 billion under management whose efficient-market-minded funds are sold either directly to large institutions or by hand-vetted financial advisors.

"Once you're lucky enough to be a firm of our size, you kind of start to think about what it is that you really want to do," says DFA's billionaire founder and chairman, David Booth, 66, sitting in his architecturally striking Austin office building with sweeping views of downtown. "Helping people solve this problem is just about as cool as it gets. And

Open a new account or roll over an old 401k, and get up to $600.

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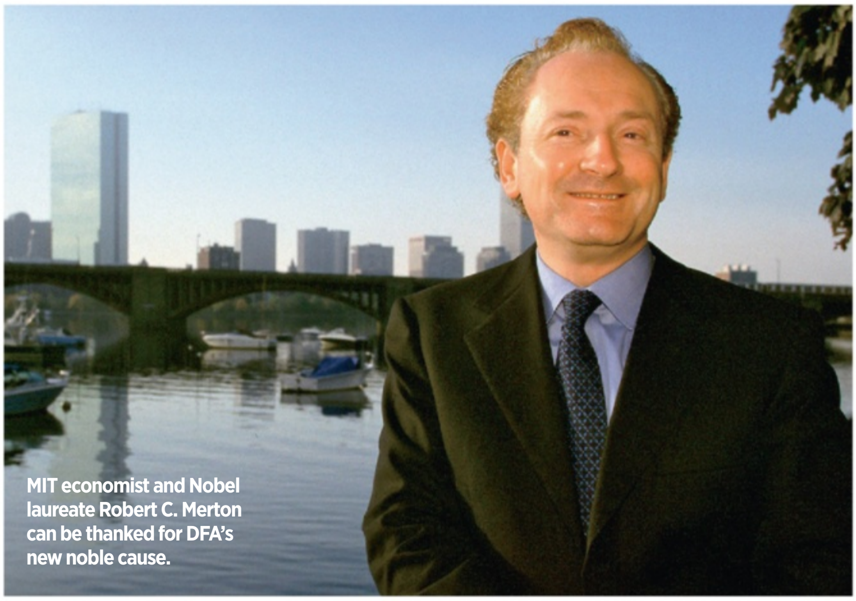


MIT economist and Nobel laureate Robert C. Merton can be thanked for DFA's new noble cause.

we're in a position with these great financial thinkers that we'd like to take a crack at that. That's kind of going to be the focus of the firm, going forward."

But Booth's nonchalant musings about his firm's new "cool" mission understate how critical his new marching orders are. Among large fund companies, DFA, with a paltry $25 billion in retirement assets, has largely missed out on the explosive growth of mutual funds into the retirement market. As of 2010 the overall retirement market in the U.S. stood at about $18 trillion, up from $4 trillion in 1990.

These days one of the fastest-growing parts of the retirement market is the $5 trillion in defined contribution plans, known mostly as 401(k)s. For traditional mutual funds, like the ones DFA manages, the market is probably the best growth engine left. DFA's retirement business is dwarfed by giants like Fidelity, Vanguard and Capital Research & Management Co.

So DFA needs to grow in defined contributions, but it also needs to be careful not to go too mass market like Fidelity and Vanguard. DFA's highly successful operating model has long centered on maintaining low costs and the cultlike loyalty of some 1,800 independent financial advisors, who account for 60% of its assets.

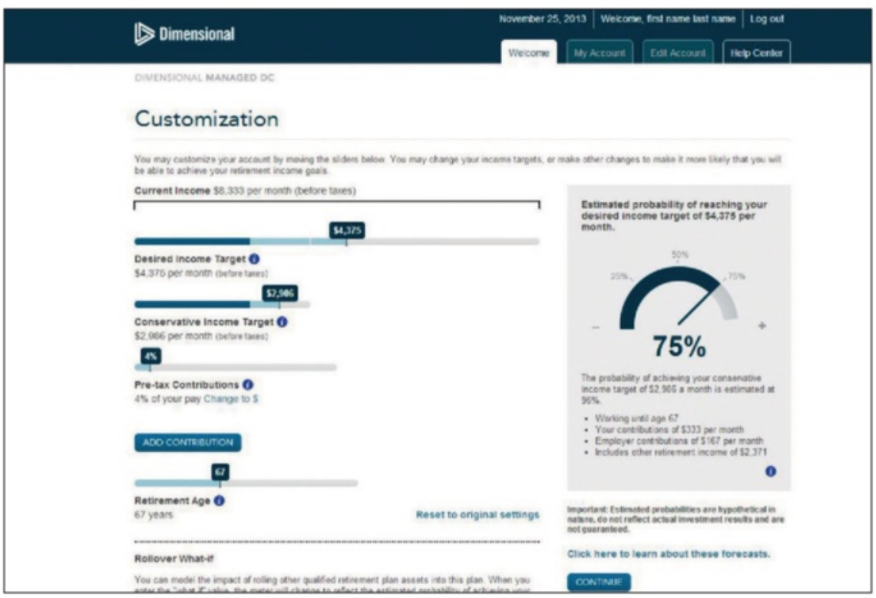
The genius of Booth's new retirement-market strategy comes from MIT economist Robert C. Merton, once described by his teacher, the famed economist Paul Samuelson, as "the Newton of modern finance." Merton's eponymous Black-Scholes-Merton options-pricing model won him and Myron Scholes the Nobel Prize in 1997 (Fischer Black died in 1995). Merton was on DFA's fund board from 2003 to 2009 and now also holds the title of "resident scientist."

DFA's brain trust has always run deep. There are two other Nobel laureates on its boards: Scholes and Eugene Fama. It was Fama's work (and that of Kenneth French, also on DFA's board) on the efficient market theory that inspired his onetime University of Chicago graduate students David Booth and Rex Sinquefield to come up with DFA's fund strategy and the firm's philosophy. DFA funds are built around the idea that you can't outguess the market, but you can outtrade other participants.

Scholarly research and Nobel credentials have become the biggest part of DFA's marketing shtick, but smart execution is its real core competency. "Trading is the cornerstone of what we do," says Booth.

Over the years Fama's and others' professorial theories have worked their way into DFA's "passive" approach to include three factors that improve returns over time: buying small-cap stocks, buying low price-to-book stocks and buying those with higher operating profits.

But with mutual fund growth slowing, DFA went back to the academic drawing board in 2010 to buy a software platform that Merton and



Look like your 401(k)? DFA makes no promises, but its four sliders could fix your retirement mix.

TOP: BOOKS KRAFT/SYGMA/CORBIS

Forbes

REINVENTING AMERICA

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LEADING THE NEXT INDUSTRIAL REVOLUTION

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Driven by technological advances, innovative manufacturing techniques, the biggest domestic energy boom in a century and a new generation of pragmatic, tested leaders in industry, education and government, the nation's industrial core is rebounding.

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VENTURE COLLABORATIVE

Boston University professor Zvi Bodie created in 2006 for a company in the Netherlands.

Merton's SmartNest software is based on what is known in academic and financial planning circles as adhering to Life Cycle Finance Theory, in that its goal is not returns or growth of assets to some optimal "value" (think ING's "Your Number" ad campaign) or target date but rather meeting the liability of lifetime income. All outcomes communicated to plan participants are expressed according to what income they will be able to achieve after retirement over the course of their lives.

In some ways its a back-to-the-future movement, explains Michael Lane, chief executive of Dimensional's SmartNest: "SmartNest wanted to create a DC [defined contribution] plan that looked like a DB [defined benefit] plan in terms of reporting, where you'd see everything in income terms. Because it doesn't matter what it is in principal value. What matters is what's it going to give you every month."

Merton's new software addresses a stark reality in the defined contribution business. Despite earnest efforts to educate 401(k) holders, the vast majority are clueless about how they need to structure their accounts now and over the course of their careers to ensure a reasonable income flow after retirement. The majority of 401(k)s today focus on asset accumulation and only gloss over income-planning postretirement.

Here's how Merton describes the current defined contribution environment for the average worker: "It is like being a surgical patient who, while being wheeled into the operating room, has the surgeon lean down and say, 'I can use anywhere from 7 to 17 sutures to close you up. Tell me what number you think is best.'"

Merton's SmartNest, now the engine for Dimensional's product called "Managed DC," offers a simple Web interface that shows retirement plan participants four simple customizable variables: a desired income target, which might default to 50% of one's preretirement income and the probability of achieving it; a conservative income target, which by default has a 96% probability of success; pretax contributions; and retirement age. Those are the only variables people ever need to worry about.

Since the system is integrated into employer plans, it already knows things like your current income and your expected Social Security benefits, and, if applicable, you can plug in expected income from a defined benefit pension plan.

Sliders are provided that let you perform what-if scenarios. If you want to change your desired income from $5,000 per month to $6,000, the probability of you achieving that might drop from 75% to 35%. The only way to get back up to 75% would be to move the slider for pretax contributions from 4% up to 8% or slide your retirement age from, say, 65 to 70.

For DFA the beauty lies under the hood because it would all be connected to three DFA portfolios: a global stock index and two inflation-protected bond portfolios of different durations, each charging 30 basis points in expenses. DFA adjusts your mix to match the duration of your income liability. No more choosing funds or reading prospectuses. Simply move your slider, hit "confirm" and let Dimensional handle it.

SmartNest gets around two big problems prevalent in the 401(k) business today. One is inertia, removing the large gap between getting sound advice and actually acting upon it, and the second involves the one-size-fits-all approach of target-date funds, which essentially assumes that everyone hitting retirement age in, say, 2025 is in the same financial

BUFFETT: JACK WELCH; FLOOD: CHAD PURSER/GETTY IMAGES

#259

Take only calculated risks on the smallest Pink Sheet stocks.

#260

Move inherited IRAs from trustee to trustee only.

#261

Name primary and contingent IRA beneficiaries so your heirs can enjoy the maximum years of tax deferral.

#262

Maximize your Social Security using a couples claiming strategy.

#263

Open all mail from the IRS.

#264

Don't cheat the IRS and your business partner at the same time.

#265

Never ignore a 1099, even if it's wrong—the IRS won't.

#266

Don't lie to your tax pro.

#267

After you hit 70, take the required minimum distributions (RMD) each year from your traditional IRAs or face near-confiscatory tax penalties.

#268

If you don't need your RMD, consider rolling it directly to a charity.

#269

Sign a living will, health care proxy and power of attorney, even if you're still healthy.

#270

Get a will. What happens to property if someone dies without one (intestate) varies by state and might not be what you would want.

#271

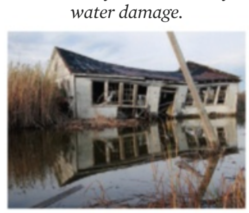
If you've got an old estate plan, review it. You may no longer need to set up a trust, since Congress raised the federal estate and gift-tax exemption above $5 million and allowed spouses to inherit each other's unused exemptions.

#272

Warren Buffett: "No matter how serene today may be, tomorrow is always uncertain."

#273

Insure your home for its replacement value; buy flood insurance if there's a risk of water damage.



bucket. According to DFA, engagement of SmartNest in the Netherlands by participants was as high as 50%, and, of those, 50% wound up saving more.

Of course, the holy grail for DFA would be getting plan sponsors to assign SmartNest as a “qualified default investment alternative” for automatic enrollment, much the way they did target-date funds starting in 2006. According to a government study published in 2007, automatic enrollment will account for up to $134 billion in additional retirement savings by 2034.

But before DFA can even contemplate this, it needs to get more plan providers to actually integrate and offer its service. One of its early adopters, Tampa’s open-architecture Aspire, signed up a year ago but has had limited success. Dimensional also has agreements with SunGard and DST, but gaining traction in the byzantine and slow-moving world of defined contribution plan recordkeeping won’t be easy. Already several sophisticated software-based retirement products, including Nobel laureate William Sharpe’s Financial Engines, have a big head start.

Listen to Heather Hooper, vice president of retirement strategies for Loring Ward, a $10 billion asset manager that serves more than 1,000 advisors, all using Dimensional funds: “Most advisors place their own value in choosing and managing investments. Dimensional’s Managed DC product is brilliant, but it takes them out of that client conversation.” Hooper has been a fan of SmartNest for years, but Loring Ward has yet to offer it. “I don’t want to be the guinea pig,” she says.

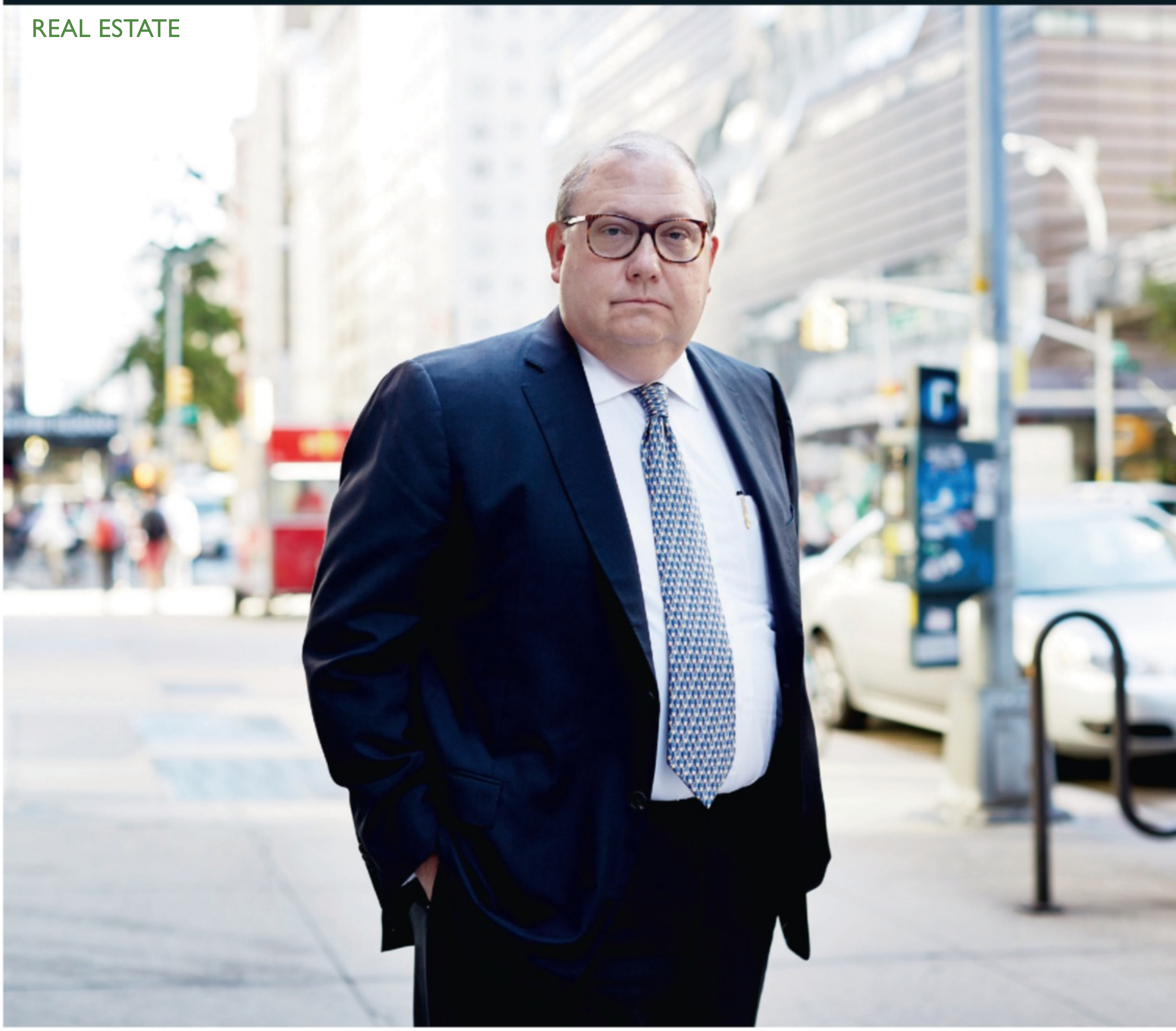
DFA’s Lane swears that SmartNest has no intention of undercutting the company’s financial advisor base.

“SmartNest is Intel. You can read all sorts of interesting things about what Intel is doing, faster processors, but no one ever calls Intel or meets anyone from Intel. ... You’re always calling someone at Dell or Apple,” says Lane. “In our case you will deal directly with the person who provides it, a financial advisor or a consultant or a plan sponsor.”

In order to make meaningful strides into the retirement market DFA needs to attract big retirement plans. Institutions of higher education would be a natural fit, and, according to insiders, DFA is currently working with TIAA-CREF to bring its SmartNest to the retirement plan of small liberal arts college Lewis & Clark in Portland, Ore. It’s also working with Transamerica to sign on a small New Jersey hospital.

Ultimately, Dimensional may even have to consider national advertising to spur demand for its Nobel laureate-endorsed approach to retirement much the way market giants like Fidelity and Prudential do. Given its reliance on low costs and loyal financial advisors, this could throw a wrench in the highly successful mutual fund model Booth and Sinquefield built.

REAL ESTATE



THE UPSIDE IN UNDERWATER MORTGAGES

William Erbey has built a $2.8 billion fortune by figuring out what makes subprime borrowers tick—and how to keep them paying.

BY LIYAN CHEN

William Erbey of Ocwen Financial has a way with deadbeat mortgage holders.

On a typical sunny and humid Saturday afternoon in St. Croix most people are sunbathing on Buckland Island beach or kayaking in Salt River Bay. But William Erbey, the 64-year-old executive chairman of Ocwen Financial, keeps the blinds shut in the second-floor office of his 17th-century Danish stone building. Out of his window is a magnificent view of the Caribbean Sea, but Erbey can't be distracted. "Sitting in paradise doesn't mean that we don't have the same discipline," he says as he sips from his glass of iced green tea.

Bill Erbey is all about 75-hour workweeks and penny-pinching. It's the reason in 2012 he moved his principal office from Atlanta to St. Croix, in the U.S. Virgin Islands, which happen to be an economic development zone. As a result Ocwen now saves 90% on its corporate income tax. It's also the reason Erbey is now worth $2.8 billion and may be the most innovative man in the mortgage business.

Ocwen Financial is the largest nonbank mortgage servicer in the U.S., with a gigantic $435 billion portfolio. Ocwen's revenue hit $531 million in the third quarter, more than double the same period a year ago, and its stock has zoomed even faster, climbing 275% in the last two years and putting Erbey on The Forbes 400 list for the first time. The bulk of Erbey's wealth is tied up in Ocwen, but he chairs four other affiliated public entities: Altisource Portfolio Solutions, Altisource Asset Management, Altisource Residential and Home Loan Servicing Solutions.

Mortgage servicers like Ocwen are essentially debt collectors, collecting monthly principal and interest payments from homeowners and delivering them to investors such as Fannie Mae and Freddie Mac and mortgage-backed security trusts. Contrary to their reputation as heartless foreclosure machines, servicers generate revenue by receiving fees on the serviced loans, so their goal is to keep delinquent borrowers paying. It's especially difficult for Ocwen, which specializes in risky subprime loans. To convince his homeowners to stay on track, Erbey has deployed new models and data-smart practices that combine technology and social psychology.

Imagine an underwater borrower who receives a call from one of Ocwen's 1,900 call-center operators in India. The operator could start the conversation by telling you that millions of Americans are losing their homes and he understands why you are having difficulty paying

JONATHAN KOZOWYK FOR FORBES

your mortgage. Or he could approach you with a more refined message: "Ocwen is able to resolve the mortgage delinquency issue without having to foreclose 80% of the time." Which prompt is more likely to keep the borrowers current?

To Erbey this simple question demands a not-so-simple answer. He explains that while both approaches sound empathetic, they could have quite different results. The former suggests the possible outcome of failure, while the latter reminds borrowers of Ocwen's successful track record. "It's like going to a child and saying, 'You are very smart,' and going to another to say, 'You are very dumb.' It is very impactful on their performances," Erbey says.

Over the past two decades Ocwen has poured $150 million into developing its proprietary software, REALServicing, and related products. The system automates the entire process, from loan setup to real-estate-owned asset management, and allows Ocwen's employees around the world to follow the same meticulous process. It also helps Ocwen monitor the dialogues with borrowers and collect extensive data to conduct behavioral research. The goal is to discover the most effective way to influence borrowers. The software is now owned and developed by Erbey affiliate Altisource Portfolio Solutions, which Ocwen spun off in 2009 and has since climbed in market cap from $100 million or so to $3.5 billion.

"If you think about a person's monthly budget, you have certain calls on that budget every month," says Daniel Furtado, an equity analyst at Jefferies who has a buy rating on Ocwen's stock. "The predominant strategy is to get in touch with the borrower, build the dialogue and help them see that they should pay your bill first." In a thin-margin business like servicing, these incremental gains or the reduction of losses that Ocwen achieves through research and automation can make a big difference in profits. In fact, Ocwen maintains higher operating margins than its competitors.

Erbey admits that he has been data-focused ever since he was president of GE Capital's mortgage insurance unit in the early 1980s. He saw that decisions determining the mitigation of loans were often random. "One person would try to foreclose, and another would try to modify. They really couldn't process it to optimize the outcome," he says.

When he became chief executive of Ocwen in 1988, Erbey set out to change its approach with data modeling. Initially he met strong resistance from tradition-bound employees, but the data proved his tactics. "People laughed at us for the first 15 or 20 years. Today it's something that has been adopted by the industry," Erbey says.

Wilbur Ross, the billionaire investor who sold competitor Homeward Residential to Ocwen last year and subsequently joined the board, never laughed at Erbey's thriftiness and data obsession. At his first board meeting, Ross recalls, directors discussed a bonus for a senior executive based partly on how many seconds he reduced in service time. "I've never seen a company with such precise requirements," says Ross. "That convinced me how they managed to have such low cost."

Perhaps the best example of the benefits of Ocwen's obsession with data mining and behavioral finance is its Shared Appreciation Modification program. Using SAM, underwater homeowners get the chance to stay in their homes and have their principal balance reduced by Ocwen to as low as 95% loan-to-value ratio. But when they sell or refinance the homes, investors in the mortgage-backed

#274

Scan in your tax records, and keep a copy on the cloud or on an external drive at work; fires and floods happen.

#275

Keep business and personal expenses separate.

#276

Maintain at least some financial accounts separate from your spouse's.

#277

Peter Lynch: "Know what you own and know why you own it."

#278

Have your kid read The Little Book That Beats the Market *by Joel Greenblatt.*

#279

Don't fall for cheap stocks that are really worth even less.

#280

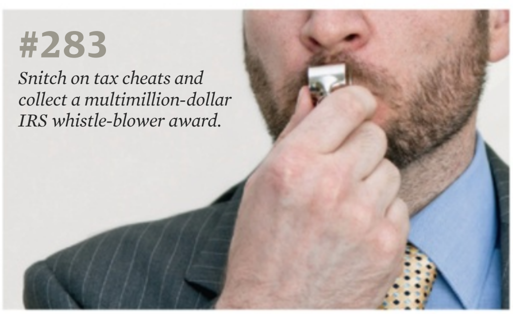
Read the classic Where Are the Customers' Yachts? *by Fred Schwed Jr.*

#281

Run from a pitchman "guaranteeing" high returns.

#282

Benjamin Graham: Speculate only with a separate small portion of your capital.



#283

Snitch on tax cheats and collect a multimillion-dollar IRS whistle-blower award.

#284

Learn what behavioral economists have found about self-destructive investor behavior—so you can try to avoid these common and expensive mistakes.

#285

Understand the risks of using leverage and inverse ETFs, which rebalance assets daily.

#286

Benjamin Graham: "Every nonprofessional who operates on margin ... is ipso facto speculating."

#287

Register for Medicare at 65, even if you're still covered by your workplace insurance, to avoid having to pay a penalty later.

CLOUD: COURTNEY KEATING / GETTY IMAGES; LYNCH: MICHAEL SPRINGER / BLOOMBERG; GRAHAM: AP; ALLEN DONIKOWSKI / GETTY IMAGES securities behind the loans get a 25% share of the upside. Erbey's genius is that he recognized the option embedded in a typical mortgage and grabbed back a piece of it for himself and investors. "We are always trying to create a win-win situation," he says.

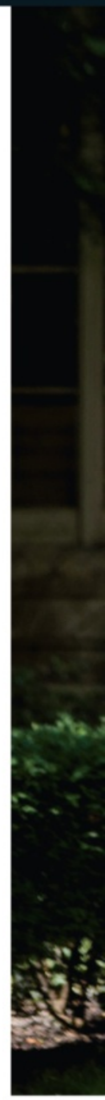
Since its full launch in early 2011 almost 42,000 families have received loan modifications through SAM. The total modifications amount to $3.7 billion in principal forgiveness, and they reduced mortgage payments by an average of $520 per month. Re-default rates on SAMs have mostly been 10% or less, compared with 33% prior to its adoption, and Ocwen projects that the modified loans are on track to produce a positive return for investors.

Erbey admits he didn't make SAM up—he borrowed it from his experience during the savings-and-loan crisis of the 1980s. In the years before the financial crisis Ocwen's solution for delinquent borrowers was generally forbearance. As the recession hit and income levels fell significantly below the line to support the existing mortgages, the company started doing more loan modifications. By examining Ocwen's proprietary data, Erbey and his team found that default rates spike for borrowers whose mortgages have loan-to-value ratios above 95%. Applying decades-old principles to this issue, Ocwen created SAM in 2010 to take advantage of the downturn.

Like other servicers that survived the financial crisis and are now thriving in the low-rate environment, Ocwen is using its strong cash flow to build its balance sheet and buy mortgage-servicing rights from banks compelled to divest them by Basel III. Besides loan originations, Erbey is also talking about expanding into other areas of consumer finance. His new ventures will likely add some leverage to the balance sheet, but Ocwen's 1.64 debt-to-equity ratio is still lower than that of its competitors.

Zach Gast, head of financial institutions research at CFRA, thinks Erbey's innovations could bring competition. "Their ingenuity could come back to bite them," he says, referring to Erbey's publicly traded Home Loan Servicing Solutions, a low-capital Cayman Island firm that buys mortgage-servicing assets. "The big question is: Why can't the big banks do that?"

In the meantime, as he avoids the sun in St. Croix, Erbey relishes the attention his financial empire has gotten on Wall Street and on Main Street thanks to his "socially responsible" mortgage innovations. But he makes no pretense: "I am in the business of making money, but I try to do it in a way that I can go home and say that people benefited from what I did today." Even better when his new home saves his shareholders millions in U.S. taxes and happens to be a stone's throw from a Caribbean beach.



SHOW ME THE MONEY

James Koutoulas runs a small hedge fund that bets on grain and livestock futures. But his biggest score could be getting all of MF Global customers' money back.

BY JOHN F. WASIK

James L. Koutoulas has never lacked for brains, determination—or swagger. At 15, with $10,000 he'd earned designing websites, he started trading tech stocks. He picked up Apple for $17 in 1997 and sold a year later for double that, using the gains to buy his first car, a 1983 BMW. At Cooper City High School in Florida he fashioned himself as the swing-dancing, sports-loving, calculus and computer geek—the dashing one with the boisterous laugh. He even ran for Mr. Cooper City and placed runner-up.

After breezing through the University of Florida on a full academic scholarship as a finance major (history minor), Koutoulas planned to manage money. But first he enrolled in Northwestern University law school because, he says, after a bad experience involving a traffic accident he was determined "not to get screwed" by the lawyers again.

That legal training has come in handy. On Halloween 2011 MF Global filed for bankruptcy in New York City, and $5 billion of customers' funds were frozen, including $55 million from the clients of Typhon Capital Management, a Chicago hedge fund Koutoulas started in 2008, just two years after graduating from law school. (With characteristic bravado he had named his firm after the hundred-headed beast of Greek mythology who battled Zeus.)

Within days of the MF Global filing, Koutoulas and Chicago commodities advisor John Roe had formed the Commodity Customer Coalition, a nonprofit group that came to represent thousands of customers, including retirees, farmers who couldn't buy seed and a single mom in danger of losing her house.

To that point Koutoulas' courtroom experience consisted of helping his sister get back a security deposit and an $8,000 pro bono case. He had never taken a bankruptcy class. But as president of CCC he began drafting motions and became a familiar face not only in bankruptcy court but also on CNBC. The 6-footer with the shock of dark hair and dark glasses was ready to say what grayer heads might not, calling early and often for the criminal prosecution of Jon S. Corzine, the former New Jersey governor, senator and Goldman Sachs chief who ran MF Global for its final 18 months. (Corzine has not been charged criminally and denies wrongdoing. He is fighting a Commodity Futures Trading Commission civil suit that alleges he is responsible for MF Global's illegal use of nearly $1 billion in customer funds to support its disastrous proprietary trading bets on European debt. The firm itself agreed in November to pay a $100 million fine to settle the case.)

Corzine wasn't Koutoulas' only big-name target. His criticism of JPMorgan was so blunt that the bank told him to take Typhon's banking business elsewhere. (In March the bank, which served as both custodian of MF Global customers' funds and its lender, agreed to return $546 million of customers' money it had frozen.)

Impolitic, perhaps, but Koutoulas and CCC got results. At the start of the case customers were told their money would be frozen for nine months, at which point they'd get 60% released. It was widely expected they'd never get all of it back. Instead, after six weeks they got 72% of their money, and the bankruptcy judge recently ordered 100% returned. (Corzine and other former MF Global execs have appealed that order.)

Koutoulas "was really offended by what occurred and got the quickest

Piggy-bank protector: James Koutoulas went to Northwestern Law so as not to "get screwed" by lawyers. Now he's taken on Jon Corzine, too.

SARA STATHAS FOR FORBES

payback ever," says Sam Tenenbaum, a professor and head of the investor protection clinic at Northwestern Law, who has served as a mentor to Koutoulas. "No one else was representing customers early on, when it mattered most," says Hilary Till, principal with Premia Risk Consultancy in Chicago. "His proactive representation of futures customers has been just about the only bright spot in the whole sorry MF Global saga."

Koutoulas says he got his capacity for moral outrage from his accountant father, who talked at the dinner table of quitting a job rather than agreeing to cook the books and also about his own strict Greek upbringing. "I've learned the level of corruption in Washington and the financial system runs deeper than I ever thought," he says.

So these days Koutoulas is speeding along on a dual track—as both a money manager and an industry reformer. Last December he and Rowe won a successful insurgent campaign for seats on the board of the industry's self-regulatory group, the National Futures Association. How much they can change at the NFA remains to be seen; in February they lost a bid to impose a lifetime ban on Corzine. (The NFA's president argued it might interfere with federal probes.)

More significant for today's investors, however, is their campaign for an insurance fund to protect retail commodities and futures customers. The Securities Investor Protection Corp. insures stock investors for up to $500,000 apiece in losses from unsavory securities brokers like Bernie Madoff, and bank customers are protected by the FDIC for up to $250,000 per account. But there's no similar protection for commodities and futures investors.

Futures, options, currency contracts and swaps are handled through "future commission merchants," who are supposed to hold the customers' money safe in segregated accounts. Supposed to. After Peregrine Financial Group, an Iowa FCM, closed its doors in July 2012, ex-CEO Russell Wasendorf Sr. pleaded guilty to embezzling $215 million from customers' accounts over two decades.

CCC has taken up the fight for Peregrine customers, too. Their only hope to recover more than 50%, Koutoulas says, rests with a suit the CFTC filed in June against U.S. Bank that asserted it illegally allowed customers' funds to be used as security on loans to Wasendorf and also permitted him to improperly keep customer money in a commercial checking account that funded his private jet and divorce settlement, among other items. U.S. Bank denies any liability.

Without an insurance fund, customers of bankrupt FCMs must rely on the courts, where lawyers charge $450 to $1,000 an hour and long delays can result in losses from margin calls, Roe told the Senate Agricultural Committee last year. "We have to stop expecting the regulators to do their jobs and start offering customers protections when they do not," he testified.

A study released in November that was paid for by the NFA and other industry groups gave skeptical treatment to the notion of insurance. Koutoulas doesn't dispute that setting up an insurance fund could be complicated but argues that small investors in particular need protection from malfeasance. He also wants Congress to tweak the law to make clear that commodities and futures customers are first in line, before other creditors, in a bankruptcy—a position they had until a 1999 court decision.

But Koutoulas is incensed by a CFTC proposal to beef up customer protection by requiring those who trade on margin to post 20% of their positions, up from 10% now. The rule's intent is to protect customers from the risk that other customers won't make good on their margin calls. Perhaps, Koutoulas says, the 20% rule should be enforced on high-frequency traders, who "in a couple of minutes, with a rogue algorithm, can blow up an FCM," but not on farmers and other retail customers, who are being asked to "double down" on the money they have at risk at FCMs.

Indeed, Koutoulas paints an alarming picture of the business in which he now makes his living. There are, he says, "scummy" firms that take inordinate risks and then change their names and start again. He suggests investors should ask for both audited statements and reports that show how a firm's returns compare with benchmarks and how the risks it takes also compare. Among the risk ratios to look at: the five-year standard deviation compared with the S&P and the Sortino Ratio, which gauges downside risk. (FORBES tip: Go back further to see how the firm did in 2008.)

Koutoulas also wants the NFA to post disciplinary information about members online, the way Finra already does for securities brokers.

Typhon, for its part, deals only with what the CFTC calls "qualified eligible participants"—they must have a net worth of at least $2 million, including $1 million in stocks or $200,000 in futures or some combination thereof, such as $500,000 in stocks and $100,000 in futures. In 2008 Typhon smartly bet that interest rates would fall, then turned to trading livestock and grain futures on the Chicago exchange. Koutoulas calls his strategies conservative, and like those of other hedge funds, they don't come cheap; Typhon charges 2% a year as a management fee and takes 20% to 25% (depending upon the fund) of investor profits as an "incentive fee." Not a bad living. "We want to be the best in agricultural trading without cheating," Koutoulas says. F

BUFFETT: JACK WELCH; VULTURE: HULYA OZKOK / GETTY IMAGES

#288

Rob Arnott: "No strategy can make up for inadequate savings or premature retirement."

#289

Start saving for retirement in your 20s to put the compounding winds at your back.

#290

Use the Rule of 72: Divide your expected percentage return into 72 to figure how long it will take you to double your money.

#291

Never sell a stock that keeps on rising in price.

#292

Warren Buffett: "When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever."

#293

Ben Franklin: "An investment in knowledge pays the best interest."

#294

Use ETFs to be your own international fund manager.

#295

Don't try to impose your ego on the market.

#296

Set up 10% trailing stop-loss orders to avoid unexpected nosedives in your portfolio.

#297

Barry Sternlicht: You have to be willing to change your mind. If you are a stubborn mule, you'll get killed.

#298

Read Warren Buffett's favorite book, Benjamin Graham's Intelligent Investor.

#299

Be a vulture investor: Buy distressed bonds at pennies on the dollar like Marty Whitman and David Tepper.

#300

Pay attention to moving averages. When the 20- or 50-day average crosses below the 200-day average it's bearish.

#301

Monitor the level of fear in the market with the CBOE put/call ratio and the VIX.

#302

Get tax help if you've got incentive stock options—they carry tax benefits but also a nasty alternative minimum tax trap.

#303

Pay public school tuition for your overachieving teen by getting steep discounts at great private colleges.

#304

Don't treat your 401(k) as a piggy bank; you'll regret it come retirement.

#305

Read Money Masters of Our Time *by John Train*

#306

Never buy anything from a cold-calling broker.

#307

Be alert for the signs that a bubble is forming.

#308

Use sentiment indicators as contrarian tools.

#309

Don't confuse correlation with causation in markets.

#310

Small-cap stocks with lower price-to-book values tend to outperform.

GENEROUS TAX TRICKS

If you want to do well while doing good, contribute your private company stock to a donor-advised fund—not an old-fashioned foundation.

BY ASHLEA EBELING

When Brooklyn couple Norm and Elaine Brodsky wanted to help their favorite charities, they used to write personal checks. As those checks carried more zeros, however, their UBS AG financial advisor suggested they set up a formal structure and giving plan.

So in 2008 Norm, now 70, and Elaine, now 65, created the "Brodsky Foundation"—which isn't (despite its name) a private foundation but a donor-advised fund. Like a private foundation, a DAF functions as a conduit. You make your contribution and claim your tax deduction now, then dribble money out to specific operating charities over years or decades while your charitable dollars are invested and growing tax free or nearly tax free (with a private foundation, there's a small investment tax).

The DAF is like a subaccount at a public charity. You have less control than you do with a private foundation and a lot less hassle. "Some of our friends had gone through the expense and torture of setting up private foundations with the stringent rules and reporting requirements," explains Norm. "We felt we'd be best served by going with a donor-advised fund. We wouldn't have to have

Happy donors: the Brodskys on the roof of Brooklyn's League Education & Treatment Center.

WALTER SMITH FOR FORBES

Trinidad & Tobago

PUSHING BOUNDARIES


International Waterfront, Port-of-Spain


Carnival 2013


National Academy for the Performing Arts

ROLF RICHARDSON/ROBERT HARDING WORLD IMAGERY/CORBIS BLAINE HARRINGTON III / ALAMY

Trinidad and Tobago is something of an anomaly. The island nation's economy, unlike that of most of its peers, does not rely primarily on tourism, but rather has fueled its growth with hydrocarbons since achieving independence in 1962. Its oil and gas reserves account for up to 90% of foreign direct investment (FDI), 70% of exports and 40% of GDP. They have made the nation one of the region's richest and most developed, with one of the Caribbean's highest GDP per capita figures.

That wealth built strong institutions and a sound macroeconomic framework that have garnered plaudits from the likes of Moody's and Standard & Poor's. The latter gives Trinidad and Tobago an 'A' rating for local and foreign currency. Challenges remain, such as improving transparency, infrastructure and productivity and streamlining bureaucracy. However, the nation not only inspires confidence, but continues to generate region-leading revenues.

With an economy worth $24 billion in 2012, Trinidad and Tobago registered average growth of over 8%, twice the regional average, from 2000 until the financial crisis began. In its wake, GDP went on a roller-coaster ride, contracting in 2009 through the beginning of 2011 because of depressed gas prices. By mid-2011, however, the economy had recovered. It posted 1.6% growth to mid-2012 and 1.7%, year on year, through Q2 2013, with nonpetroleum sectors expected to grow 2.5% by the end of the year, according to the International Monetary Fund.

Although fossil fuels were a blessing in the past, in today's turbulent economy, things have changed. "There is no doubt in anybody's mind that Trinidad and Tobago has to move away from overdependence on oil and gas," says Vasant Bharath, the country's minister of trade, industry and investment. "The rest of the world is moving at a fast pace, and we have to clean up our act or be left behind."

Economic diversification is the way forward, and the government of Prime Minister Kamla Persad-Bissessar is focusing on sustainable economic development in five competitive clusters: culture and creative industries, financial services, food and food products, maritime industries and tourism. It has also identified the information and communications technology (ICT) sector as a key enabler to growth.

Spearheading efforts to attract FDI to these sectors is invesTT, the agency charged with targeting and securing local and overseas investment to Trinidad and Tobago, which in 2012 topped $2.5 billion, including the energy sector. "Last year, we were responsible for $104 million in our first year of operation," says Kelvin Mahabir, invesTT's president. "We are targeting $210 million in 2013 and already have that in the pipeline."

Achieving Financial Maturity

While petrochemicals may have made Trinidad and Tobago's fortune over the last half century, the financial sector will be key to long-term prosperity. The country is one of the Caribbean's leading financial centers, thanks to its near-shore location, transparent tax regime and robust regulations, while its well-educated, English-speaking workforce makes it a jurisdiction of choice for business process outsourcing (BPO).

"The financial services sector contributes about 14% of GDP and is the fastest-growing sector in the country," notes Varun Maharaj, CEO of the Trinidad and Tobago International Finance Centre (TTIFC), the national investment promotion agency that aims to connect investors and partners in the financial services industry to human and corporate resources.

Trinidad and Tobago is ranked 84th on the World Economic Forum's Global Competitiveness Report 2012–13. It is the third-most-attractive foreign investment destination in FDI Intelligence's FDI Caribbean and Central American Countries of the Future 2011/2012. Trinidad and Tobago has developed the Financial Institutions Support Services (FINeSS) program to boost its BPO sector and support middle- and back-office operations.

The banking industry comprises eight commercial banks, most also active elsewhere in the Caribbean; 17 nonbank financial institutions; and two holding companies. Among the products and services offered are local and U.S. dollar savings and investment accounts, money market instruments, foreign exchange, and project and trade financing.

Founded in 1993, First Citizens Group is one of Trinidad and Tobago's two financial holding companies and is the highest-rated indigenous institution in the English-speaking Caribbean. The nine-member group includes the country's third-largest bank, which offers corporate, merchant and retail banking services, as well as subsidiaries providing asset management, brokerage and trustee services.

In July 2013, First Citizens launched an over $170 million IPO, 20% of the state's stake in the publicly owned bank, which was oversubscribed three times, according to Larry Nath, group CEO and president of the Bankers Association of Trinidad and Tobago. "In 1993, we had $550 million in assets; now, in 2013, we have over $800 million," he says. "We have come a long way and picked up every award there is. This year, we won safest bank in the region and received the Euromoney award for excellence in banking."

For its part, Republic Bank, the nation's oldest financial institution, is looking forward and outward to leverage its 175 years of experience doing business in Trinidad and Tobago and financing oil and gas developments overseas. It is active in Barbados, the Cayman Islands, Grenada, Guyana and Saint Lucia. The bank also operates in Africa, where in September it acquired additional shares in HFC Bank Ghana with the goal of growing 50% in five years. "When Ghana found oil and gas and was asking Trinidad for assistance, our interest started," explains Nigel Baptiste, Republic's executive director. "We now have a 40% stake in HFC, and it is a long-term investment. We wanted a partner bank for our pan-Africa strategy."

Part of a group of 17 subsidiaries and associated enterprises, Republic is the biggest, most profitable bank in the English-speaking Caribbean and has "been involved in the business community in Trinidad and Tobago from early emancipation days," Baptiste notes. "As communities have grown, so have we."

Trinidad and Tobago Section Project Managers:
Mauro Perillo, Rosie Venn and Matthew Dickert

For more information, contact:
Gabriel Gutierrez—g.gutierrez@forbes-cm.com

Leading the Way to Diversification

While FDI across the Caribbean and Central America fell 17% year on year in 2012, Trinidad and Tobago bucked the trend, posting a 38% FDI hike in the same period, according to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2013. Total inflows of overseas capital reached more than $2.5 billion, almost three times the pre-2008 average.

As the government agency responsible for promoting investment in Trinidad and Tobago, invesTT is at the forefront of the country's efforts to diversify away from its traditional reliance on oil and gas. Kelvin Mahabir, invesTT's president, is a committed advocate for the development of other strategic sectors in the islands' economy. These arenas should be ready for the day its hydrocarbon resources begin to run dry.

"I am a firm believer that no country competes on natural resources that come out of the ground," Mahabir says. "They compete on the basis of their people. We need to build on the kind of clustering already present in the country; it is unmatched anywhere in the world. Our companies are so well designed in terms of what they do to support varying sectors that they are now moving all over the world."

When Mahabir arrived at the agency in 2011, he and Brian Frontin, the chairman of the Tourism Development Company (TDC), came up with a list of the industries they felt would be most viable for investment, taking into account global trends and local strengths. These include agribusiness, clean technology, creative industries, downstream energy, information and communications technology, light manufacturing, maritime industries and tourism.

The agency has introduced incentives to stimulate interest in each of these targeted sectors: training for BPO and software companies through university programs; real-estate incentives, such as rent-free tenancies in the new Tamana InTech Park, to develop selected locations; a sliding-scale tax regime, with free trade zone advantages and exemptions for manufacturing ventures; and a comprehensive program to incentivize physical investment in tourism.

Offering investors all the guidance and support required to explore business opportunities, invesTT serves as a one-stop shop under the auspices of the Ministry of Trade, Industry and Investment, leveraging its resources and relationships to clients' advantage. invesTT assigns an account manager to every investor, who acts as a point person to interact with other agencies involved in making investment projects a reality.

"invesTT is an all-encompassing agency that gives investors the assurance that their project is being handled professionally," notes Vasant Bharath. "We are refocusing public service agencies to be customer focused, customer facing and as helpful as possible, moving from red tape to the red carpet."

As a source of information and means of making connections, invesTT delivers the knowledge and contacts that domestic and overseas investors need to establish and expand their interests in Trinidad and Tobago. The services available via invesTT's investor sourcing and facilitation teams encompass sector-based research into market and investment opportunities, real estate surveys and site visits, value-chain advice and a wide range of aftercare extras, including policy advocacy and problem resolution.

Meanwhile, as part of its mission to lead innovation, invesTT has also taken part in developing what Mahabir believes to be the nation's most valuable asset: human resources. He has initiated talks with the University of Trinidad and Tobago about co-branding its new facility at Tamana InTech Park with a Latin American university: "invesTT's campus of the University of Trinidad and Tobago is going to be ready for operation in March 2015," he confirms. "It is a flagship that will really drive science and technology."

Maximizing Tourism's Potential

Although Trinidad and Tobago has not had much development to date as a tourist destination, the potential to receive greater visitor numbers is there once it has facilities in place to welcome them. Some 455,000 people traveled to the nation in 2012, accounting for nearly $1 billion of GDP, but, according to the Ministry of Tourism, tourism's contribution could increase significantly, "driven by differentiated, internationally competitive infrastructure."

Among the projects that aim to make the islands stand out from the Caribbean crowd are a $1 million 4,300-foot, recycled-materials boardwalk at Williams Bay, on the Chaguaramas peninsula in Trinidad. The first stage opened this May and it will extend in future to Tembladora and Alcan Bay, with jetties and a marina.

The boardwalk is just one project the Chaguaramas Development Authority (CDA) is overseeing on the 14,500 acres of land and five islands under its control. Other developments defined in the CDA master plan include creating an 18-hole golf course on an existing 9-hole facility, upgrading the Chaguaramas Hotel and Business Centre and turning it into a five-star resort, and transforming the Hart's Cut area into a Venice-style development.

Around $4.5 billion of local and overseas capital has already been pledged for development. Daniel Solomon, the CDA's chairman, notes: "We attract different types of investors, ranging from the wealthy to boutique investors. To meet our mandate of sustainable development and diversification, we are partnering with the private sector to access capital, knowledge and best practices."

As a government agency, the CDA is responsible for the promotion of all kinds of development in Chaguaramas; the CDA is focused, at present, on the tourism sector, serving as a conduit to drive private-sector investment.

A Unique Identity

"Multiculturalism is an infinite resource," says Lincoln Douglas, Trinidad and Tobago's minister of the arts and multiculturalism. "As long as you have people, they make things that have meaning for themselves and others."

The birthplace of a medley of musical styles, and the spiritual home of Carnival, Trinidad and Tobago's melting pot of influences has thrown a diverse population together in "a culture of constant creation," Douglas believes.

His ministry is working to support and preserve the islands' unique heritage. This December, the country will also host the inaugural edition of TIME, the Trinidad International Music Expo, showcasing its vibrant culture to the world.

Trinidad and Tobago's best-loved export is undoubtedly Carnival, celebrated worldwide at the end of winter. But few know how to have fun quite like the masqueraders on Port-of-Spain's streets in the week before Lent. When the party's over, exhausted visitors can head to Tobago for a little rest and relaxation in boutique guesthouses such as Bacolet Beach Club, or resorts like the Magdalena Grand.

The locals play hard, too, when it comes to favorite regional sports, like cricket. This summer, Trinidad hosted the first Limacol Caribbean Premier League Twenty20 Tournament, which CEO Damien O'Donohue hopes will fuel the dreams of generations to come. "The Caribbean is the natural home of T20 cricket," he says.

accountants and lawyers at every step, and it gave us a lot of flexibility." Then, this past fall, the Brodskys tapped into two other advantages of DAFs that explain why some very rich people who in years past would have set up private foundations are now using DAFs or "supporting organizations" instead. They donated $2.5 million worth of shares of CitiStorage, a private-document-archive business Norm founded.

Here's the first tax advantage: If you give private stock to a foundation you can deduct only what it cost you (your basis), whereas if you give it to a DAF, a supporting org or any public charity like the United Way, you can claim the full market value as a charitable deduction—without ever paying taxes on the appreciation.

Here's the second tax goody, which matters to generous givers such as the Brodskys. If you donate publicly traded appreciated stock to a private foundation, you can claim a deduction for its full market value, offsetting a maximum of only 20% of your adjusted gross income each year. But if you donate appreciated property (including private stock and real estate) to public charities, DAFs or a supporting org, it can offset 30% of your AGI. Similarly, if you give cash to a private foundation it can offset only 30% of your income, compared with 50% for cash contributions to a public charity, DAF or supporting org. (In all cases any deduction you can't use in the year of the gift can be carried forward for up to five additional years.)

Norm says the couple has a "pretty good" carryforward. So far they've used their swollen DAF kitty to direct $250,000 to the League Education & Treatment Center in Brooklyn, which helps autistic kids; a seven-figure amount for a new synagogue planned by the BACH Jewish Center in Long Beach, N.Y.; and $100,000 to the Telluride Foundation in the Colorado ski town where they have a second home.

Serial entrepreneur Norm (he writes a start-up column for *Inc.*) says he is so pleased with the way the CitiStorage donation worked out that he might eventually donate interests from his latest ventures—a chain of Japanese fast-food restaurants, Kobeyaki, and the Black Gold Suites hotels in North Dakota oil country.

"Contributing closely held stock is definitely an underused giving strategy; with all the hoopla publicly traded stock gets, private stock is the redheaded stepchild," says Bryan Clontz, president of Charitable Solutions in Jacksonville, Fla., who helped with the logistics of the Brodskys' CitiStorage donation.

To be sure, a lot of rich folks still crave the bragging rights that come with a private foundation. But assets in donor-advised funds hit $45 billion in 2012, as yearly contributions rose to $13.7 billion—equal to 45% of the amount contributed to private foundations that year, up from 36% in 2007, the National Philanthropic Trust calculates. "People once thought it was the lesser choice of a foundation, but now DAFs are the fastest-growing charitable vehicle out there," NPT Vice President Andrew Hastings says. This year's jump in the top federal tax rate, as well as the run-up in the stock market and in pre-IPO values, are magnifying the tax advantages of using DAFs, points out Claudia Sangster, director of philanthropy services at Harris myCFO.

Intrigued? Investors who want to be free to give to any cause can open a DAF at a charity affiliated with Vanguard, Fidelity or Schwab, or at the "private label" DAFs the National Philanthropic Trust offers through UBS, J. P. Morgan and other financial service providers.

If you want a good chunk of your money to help local charities, consider a community foundation—more than 600 of them nationwide offer DAFs, with a minimum contribution of $5,000, and some also offer supporting orgs, usually with a minimum contribution of $2 million. (Supporting orgs give the donor more control. Facebook founder Mark Zuckerberg has used one to donate $550 million worth of stock.)

Clontz points out that if your primary concern is to get the most tax and charitable bang for the buck, giving appreciated public stock is the way to go. Private stock donations require a qualified appraisal, which runs $5,000 and up.

Glen Tullman, managing partner of 7wire Ventures, a VC firm, opened a donor-advised fund at Fidelity Charitable in 2009 with stock in Allscripts Healthcare Solutions, which he took public in 1999 and where he served as CEO through 2012. He's used the account to funnel nearly $5 million to the JDRF (previously the Juvenile Diabetes Research Foundation) and additional amounts to other public charities, and he replenishes it as needed with Allscripts shares.

While he doesn't rule out giving private stock from the ventures he backs, Tullman likes the ease of donating Allscripts shares. "One account allows us to do all of our giving and make decisions that are the right decisions at the right time and not be driven by any particular calendar date or tax event," he says. F

GETTY IMAGES; PATRICK WELSH

#311

Tap an IRA—not a 401(k)—without penalty for a first-time home purchase.

#312

Leave the dollars in a Health Savings Account growing tax free for retirement while you cover medical deductibles and copays from your current income.

#313

Use a "flight path" approach to asset allocation, raising your exposure to stocks as you become a more confident investor.

#314

Know your sell rules before you buy.

#315

Read letters of great investors such as Warren Buffett and Jeremy Grantham online.

#316

Become an online stock researcher.

#317

Beware of asset protection scams.

#318

When stuck paying AMT, accelerate some income.

#319

Rent out your vacation home for two weeks a year, tax free.

#320

Most people don't need a whole life policy; buy a 20-year level-premium life insurance policy before your first child is born.

SCHOLARSHIPS AREN'T ENOUGH

Famously parsimonious in life, the late Forbes 400 member Jack Kent Cooke devoted his fortune to helping the smartest poor kids excel—and that means much more than just paying for college.

BY KERRY HANNON

One night, as they sat in his library sipping a $10 bottle of Meursault, Washington Redskins owner Jack Kent Cooke turned to Stuart A. Haney, his young lawyer and aide de camp, and declared: "Twenty years after I'm gone I will only be a footnote in the annals of the National Football League."

But, as both men knew, Cooke wasn't ready to settle for a footnote. A decade before his death in 1997 at age 84 he had secretly decided he wanted to be remembered for a namesake foundation devoted exclusively to helping a select group of brilliant, driven and in some cases musically gifted poor kids succeed.

Today, with $640 million in assets, the Jack Kent Cooke Foundation, based in Lansdowne, Va., offers some of the richest individual scholarships in the nation. Each year it picks about 60 eighth-grade "scholars" (average family income: $25,000) and provides them individual academic advisors, summer college and travel-abroad programs, laptops and, if need be, private school—in other words, the sort of enrichment lavished these days on kids from well-off families. Those extras continue through high school at an average cost of $15,000 per child a year. Any who continue to excel get college scholarships worth up to $30,000 a year, or another $120,000.

"Mr. Cooke didn't want to do anything piecemeal," Haney explains. "He said these kids are from very lean circumstances. Giving them $30,000 gets them in the door, but they aren't going to stay there. We need to back them through the whole process, if possible."

Some might question devoting so much money to a handful of kids who are already high achievers but not Nancy Green, executive director of the National Association for Gifted Children in Washington, D.C. "It's about equity, not elitism," she says. "They're stepping in to support students with opportunities that are readily available to top students in the middle class and above." With federal aid for poor children directed primarily toward those at risk of failing, helping the talented is a proper job for private money, she adds.

Cooke himself never even started

Far from the Rio Grande Valley: Cooke helped Edith Carolina Benavides make the transition to Harvard.

JASON GROW FOR FORBES

college. Born in Canada in 1912 to middle-class parents, he was an indifferent student who cut class to hang out at a local music shop in Toronto where he taught himself to play piano and clarinet. After his dad went broke in the 1929 market crash, he left school with a lower-level high school diploma (it didn't qualify him for college) and played at weddings and on Lake Ontario cruise ships with his band, Oley Kent and His Bourgeois Canadians. While he regretted not going to college, he also reportedly told friends that if he'd had more talent he would have made his living as a musician.

Instead, Cooke became a salesman, peddling encyclopedias and soap door-to-door. His big break came in 1936 when he landed a job running a radio station in Stratford, Ont., 100 miles from Toronto. The station was owned by budding

#321

Warren Buffett: "You only find out who is swimming naked when the tide goes out."

#322

Save $100,000 or more by sending your overachiever to community college and then have her transfer to the Ivy League.

#323

Save on a master's—for yourself or kids—by earning it in Britain in one year.

#324

Have your eldest child take a gap year before college so that more than one child is in school at the same time—you'll get more financial aid.

#325

Rothify—Roth conversions make sense in more cases than most people realize.

#326

Time 401(k) contributions to make sure you grab your full employer match.

#327

Factor your individual health and life expectancy into your decision on when to take Social Security.

media mogul Roy Thomson. Impressed by the younger man's smooth salesmanship and drive, Thomson made him a partner. Cooke went on to earn a fortune from newspapers, radio stations and cable TV, moved to the U.S. in 1960 and appeared on The Forbes 400 list every year from its inception in 1982 until his death.

In contrast to Bill Gates, Warren Buffett and many of today's 400 members, Cooke wasn't a generous philanthropist during his lifetime. "He delighted in being a curmudgeon," recalls Haney, who had the task of politely brushing off donation requests.

Rather than good works, Cooke was known for his sports teams and his four wives—the last two of them half his age. In 1979 he reached a $42 million divorce settlement with his first wife that made the *Guinness Book of World Records* as the largest to that date. To finance it he sold the NBA's Los Angeles Lakers and NHL's Los Angeles Kings to Jerry Buss, in what was the largest sports deal to that date. In 1987 he filed for divorce from his third wife after only 73 days, claiming the 31-year-old had gone back on a prenuptial agreement to terminate her pregnancy. (She later gave birth to a daughter.) In 1990 he got hitched to a woman headline writers dubbed the "Bolivian Bombshell"—she had done time in the federal pen for drug smuggling and, it turned out, wasn't properly divorced from her previous husband. (Cooke had his marriage to the Bolivian annulled, then married her again after her previous marriage was properly dissolved.)

Meanwhile, as Haney tells it, on many a night Cooke would invite the young lawyer to his library where the two would drink cheap wine and hash over plans for the foundation. "It was Mr. Cooke's relaxation after a difficult day to sit back and dream," recalls Haney, now 56. He hoped that "some of the best minds in every single profession known to mankind" would become connected through his scholarships and foundation to form a sort of virtual think tank.

Yet even after Cooke's will became public, melodrama and court battles overshadowed his charitable ambitions. The Bolivian, having been cut out of the will, sued and settled for millions. Cooke's son, left just $50 million, fought desperately to keep the Redskins; other executors of the estate decided to sell the team, and he ultimately lost out to current owner Dan Snyder. The disappointed son then sued his fellow executors (including Haney) for charging excessive fees; a settlement reportedly cut their take by more than half to $17.5 million. Finally, the daughter Cooke never meant to have sued, too, claiming her $5 million trust had been mishandled and she couldn't pay her college tuition. (She lost.)

HOW TO HELP

- Direct support. You can't claim a charitable deduction for it, but you can pay anyone's private high school or college bills directly (send the money to the school), plus give that person up to $14,000 a year for expenses, without worrying about gift taxes.
- Existing organizations. If you're looking to make a tax-deductible charitable contribution, consider the Children's Scholarship Fund (which helps send kids to private school for K–8), the First Scholarship Fund (summer camp and college scholarships) or a school or local community scholarship fund.
- Endowing a scholarship. If you're ready to donate at least $100,000, you can endow a scholarship specifically for low-income students through a community foundation or individual college.

PATRICK WELSH; CRAIG WARGA / BLOOMBERG; NICK M. DO / GETTY IMAGES; BLOOMBERG

#328

Use an online calculator to help you determine the best strategy to maximize your Social Security benefits.

#329

Put junk bond funds in tax-deferred accounts.

#330

If your spouse dies, file an estate tax return to preserve his $5.25 million estate/gift tax exemption for your own use later.

#331

Buy master limited partnerships late in life to avoid their tax drawbacks.

#332

Only buy closed-end funds trading at discounts to net asset value.

#333

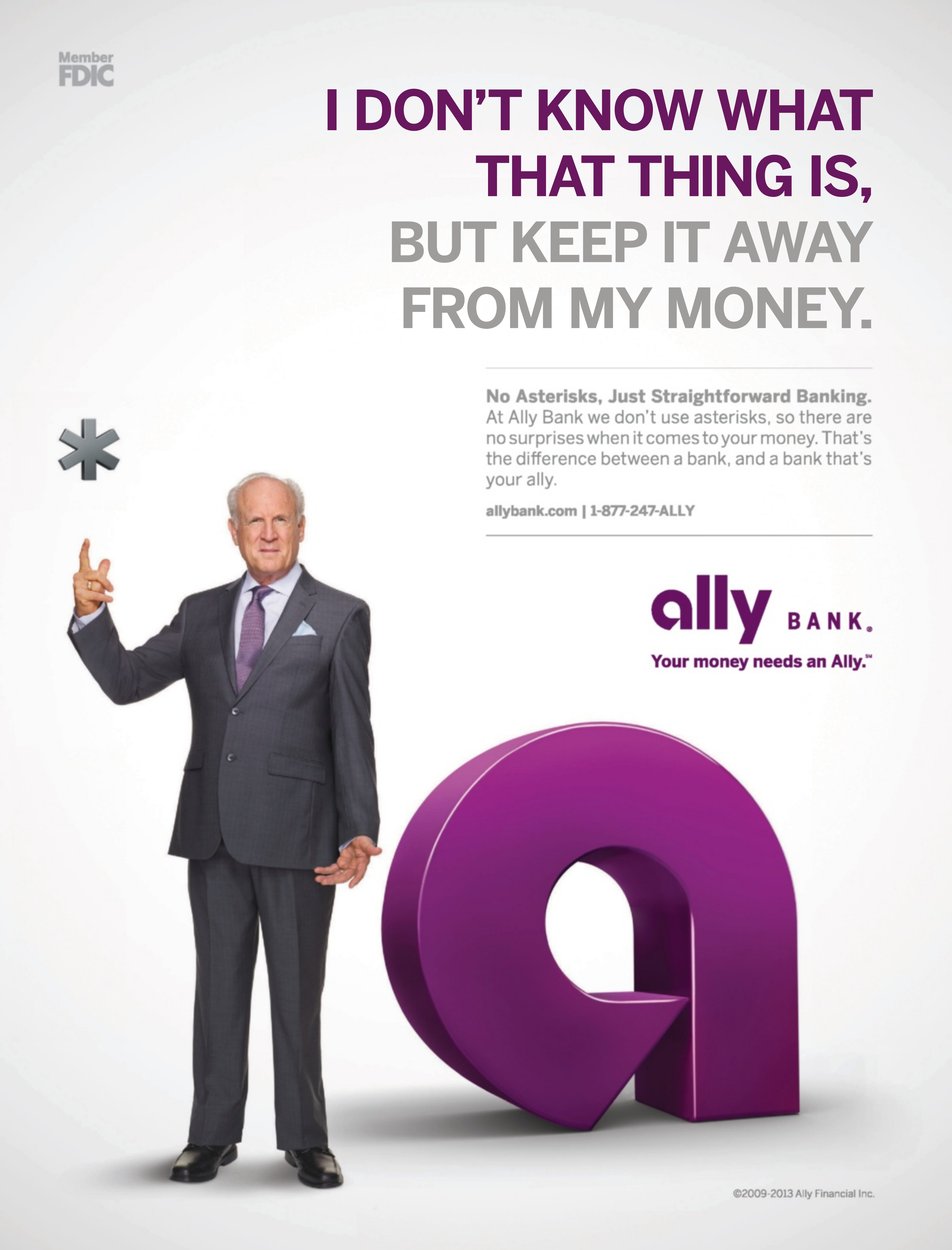
Invest in businesses with sustainable competitive advantages.

#334

Don't fight the tape.

#335

Remember, three out of four stocks follow the market's overall trend.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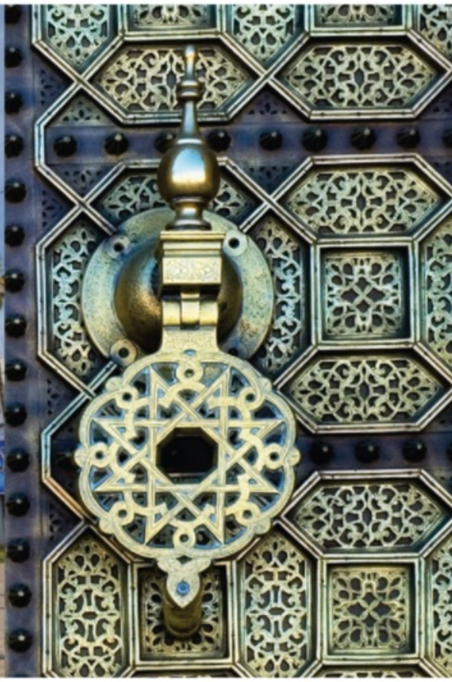
Morocco

LEVERAGING A STRATEGIC LOCATION



ABDELHAK SENNA/AFP/GETTY IMAGES GETTY IMAGES DIGITAL VISION

Two and a half years after the Arab Spring—widespread civil uprisings that ousted rulers from power across the Middle East and North Africa (MENA), and that continue to fuel conflict in Egypt, Libya and Syria—the moderate monarchy of Morocco remains an oasis of calm and prosperity in the region.

Under the guidance of King Mohammed VI, who passed constitutional reforms in response to peaceful protests, this progressive nation of 35 million held elections in November 2011. The elections brought an Islamist party to power in a transition to representative government that left the country's economic and social structure intact.

Strengthened by its political stability, Morocco has leveraged its strategic location as a hub between the European Union (EU) and its MENA peers, capitalizing on established trade networks to boost exports and drive growth. Between 2001 and 2011, the country's economy expanded by 4% to 5%; however, due to rising fuel costs, a poor harvest and recession in southern Europe, its GDP growth slowed to 2.9% in 2012.

By the end of 2012, Morocco's economy was worth $97 billion; imports, mostly crude, topped $42 billion, and exports rose to more than $21 billion. The World Economic Forum already ranks the nation as North Africa's most competitive economy, and the nation's government aims to boost exports, under its "Maroc Export Plus" strategy, to reach almost $40 billion by 2018.

Investments in Morocco's industrial development and infrastructure—such as the Tanger-Med port and free-trade zone—will enable the production and exportation of higher volumes of added-value goods. Meanwhile, free-trade agreements (FTAs), signed with the United States (2006), the EU (2008) and other nations, have opened new doors for Moroccan manufacturers.

"The liberalization of Morocco and the conclusion of numerous FTAs have allowed exporters to have access to a market of 1 billion consumers and have had a positive impact on the country's economic development," says Zahra Maafiri, the director of the Moroccan Center for the Promotion of Exports (Maroc Export).

Maroc Export is responsible for promoting Morocco's products overseas, diversifying markets, supporting business internationalization and undertaking research to develop the full potential of the nation's export industries. Its Maroc Export Plus plan focuses on strategic sectors, such as agribusiness, electronics, seafood and textiles, and aims to build brands, add value and consolidate the country's presence worldwide.

"We have an expert team, dedicated to the fulfillment, guidance and support of our mission: providing information, training, consulting and professional support for exports in the international market," Maafiri explains.

Domestic Market

Since gaining independence from France in 1956, Morocco has evolved from a subsistence agriculture model to a modern, competitive and diversified economy; because of this, it has proved resilient to the global recession. As the nation has matured and prospered, so have its people, migrating from rural areas to cities, joining the ranks of a burgeoning middle class and fueling greater domestic demand for products and services.

As GDP per capita swells, Moroccan consumers are driving growth in sectors such as the automobile market, which grew by 29% in 2012 and attracted billion-dollar investments from France's Renault; and construction, which is benefiting from large state infrastructure projects and a housing boom. Social housing alone saw a hike of 37% last year, while the number of residential projects nationwide registered a 26% increase.

As a result, contractors like family-owned TGCC (Travaux Généraux de Construction de Casablanca) are well positioned to profit from the rising demand. According to Mohammed Bouzoubaa, its CEO, "We are among the leading Moroccan companies in the sector, specialized in all types of building: housing, industrial and civil engineering. We build turnkey hotels, malls, stadiums, air terminals and even Tanger City Center."

TGCC currently is working on the high-speed railroad from Tangier to Rabat, Morocco's capital; and building high-end residential projects for Prestigia, part of the Addoha Group. Its Bina Immobilier division is acquiring real-estate assets, while the company has begun to develop social housing. It also is exploring opportunities abroad via its subsidiary in Gabon, with plans for Ivory Coast and Libya.

Education

In line with Morocco's economic development, successive governments have invested in education to ensure a brighter future for citizens and a supply of well-trained employees for businesses. Morocco invests close to 25% of its budget—more than 5% of its GDP—in education, which is well above the 13% average for industrial nations. The country also dedicates one in three civil servants to the sector, and has 7 million students enrolled in schools and universities and more than half a million in higher education.

Unemployment among young people, however, remains a challenge, since 20% of the workforce is without jobs. In a speech to the nation this August, King Mohammed VI called for mandatory foreign-language teaching and greater emphasis on vocational and technical courses to better tailor education to employers' demands.

Minister of Higher Education, Scientific Research and Training Lahcen Daoudi believes the private sector—independently and via public-private partnerships—has an important role to play in the development of a more business-friendly model of education.

"Morocco is a liberal country, and I do not see why there should be a sector closed to private companies," Minister Daoudi states. "Every sector can offer benefits, and education is certainly one of them, not to mention the best investment opportunity from a financial point of view, because after training, people can start work immediately according to the companies' vision. This is a win-win situation for the country and the investor."

According to the latest official data, Morocco had 112 higher-education facilities at the end of 2011, including an increasing number of private schools, though public universities continue to hold their own. Among the country's top public institutions is Université Sidi Mohamed Ben Abdellah (USMBA) in Fes, the site of the world's first university. Founded in 1975, USMBA is the country's largest tertiary institution with 75,000 students and 13 centers.

"Every sector can offer benefits, and education is certainly one of them, not to mention the best investment opportunity from a financial point of view."

Lahcen Daoudi, Minister of Higher Education, Scientific Research and Training

USMBA is now looking for investors to develop its ambitious International University City project, a fully equipped education hub based ten miles south of Fes that is designed to attract top-flight international schools to carry on the city's rich academic traditions. ❖

For more information about this section on Morocco, please contact
Gabriel Gutierrez—g.gutierrez@forbes-cm.com

A new approach to higher education

Famous for its medina, the UNESCO World Heritage site of Fes also boasts the world's oldest university, Al-Karaouine, founded in 859. Following in its footsteps, the city today is home to Morocco's largest higher education facility, Université Sidi Mohamed Ben Abdellah.

With 75,000 students, 2,250 staff, 13 centers, and 203 courses—more than half in vocation programs dedicated to the needs of the market—Université Sidi Mohamed Ben Abdellah is already the size of a small town. And it now aims to begin developing a groundbreaking city.

The university's goal is to reach 125,000 students by 2016. It has a budget of $163 million and plans to establish a modern university city. With the presence of foreign universities, including American, Chinese and Japanese institutions, this will be a new approach for Morocco and the region.

The goal is to give overseas universities and companies a chance to establish themselves in Fes, leveraging competition to raise the quality of education. The university intends to reproduce the city of Fes, a unique project worldwide.

The university's goal is to reach 125,000 students by 2016. It has a budget of $163 million and plans to establish a modern university city

Université Sidi Mohamed Ben Abdellah | Route d'Imouzzer B.P.2626, Fes 30000 | Tel. (212-35)60 96 60/60 96 61, Fax. (212-35)60 96 50 | www.usmba.ac.ma

Stuart Haney helped Cooke keep his charitable plans secret and his reputation as a curmudgeon intact.

CLOCKWISE FROM TOP LEFT: DAVID DEAL FOR FORBES; LOUIS LANZANO / AP; SCOTT EELLS / BLOOMBERG; PETER FOLEY / BLOOMBERG

Through it all, Cooke's charitable plans survived. The foundation opened in 2000 and so far has spent $120 million on scholarships and direct support of students, while making $76 million in grants to other organizations helping gifted poor kids.

True to Cooke's virtual think tank vision, recipients are brought to Virginia once a year for a weekend get-together, where they joke about being "Cookie cousins" with the same rich "Uncle Jack." (On Cooke's birthday, this past Oct. 25, some changed their Facebook profile pictures to one of Cooke.) During this year's weekend meet-up, reps from 60 schools, including Amherst, Swarthmore and the University of California, Berkeley, showed up for the foundation's annual college fair, conducting practice interviews and offering tips to the Cookies. The schools show up because they know the foundation has sloshed through a deep talent pool for them, choosing 60 from 2,000 applicants a year.

Identifying the most promising students so young "is tough because nobody is really accomplished at the age of 13," admits Emily Froimson, vice president of programs at the Cooke Foundation. So the foundation relies heavily on standardized test scores and requires scholars to already be earning mostly As, with no Cs in core academic subjects. It also looks for accomplishments outside the classroom. "We want someone who will set goals for themselves, persistently works toward those goals and demonstrates resilience," Froimson says.

When Harvard senior Edith Carolina Benavides heard she was a Cooke scholar, she cried and later translated the acceptance letter for her parents, who couldn't read much English at that time. Benavides attended the local public high school in Mission, Tex., a few miles north of the Rio Grande. Meanwhile, Cooke prepared her for "the endless diversity present outside the Rio Grande Valley," she says, by sending her to summer science programs at Smith, Brown and the University of Michigan. At 16 Benavides, who plays the sax, started an English and music tutoring program for children in Monterrey, Mexico. Now 21, she's majoring in Romance languages and literature, still getting help from Cooke, and deciding between graduate school or working at a nonprofit.

Yasmine Arrington's father has been in and out of prison since she was 3, and her mom died when she was almost 14, leaving a grandmother to raise Arrington and her two siblings. "Finances were always a huge problem for my family," says the now 20-year-old junior at Elon University in North Carolina.

#336

Robert Shiller: Market efficiency is only a half-truth. You can profit from irrational exuberance.

#337

Spend 25% less than you make—it will give you flexibility to pursue the big opportunity.

#338

Bruce Greenwald: To get really rich, copy the hedge fund, private equity and VC masters and "get your hands on somebody else's money."

#339

Warren Buffett: "Investors should remember that excitement and expenses are their enemies."

#340

Watch out for high fees hidden in some tax-sheltered products like 529s and variable annuities.

#341

Protect your assets before there's a claim against you; after-the-fact moves can backfire.

#342

Check your advisor's ADV at www.sec.gov.

#343

Remember Bernie Madoff: Make sure your investment advisor keeps your money in an account with an independent custodian.

#344

Gary Shilling: Don't try to reinvent the wheel. Instead, intelligently and efficiently apply what is already well known.

#345

Warren Buffett: "You don't have to make money back the same way you lost it."

#346

When selling a business, plan ahead and you may be able to save big on tax.

#347

Retire to a place where jobs are plentiful.

#348

Factor taxes into your retirement income strategy.

#349

Take $500,000 per couple in gains on the sale of your home, tax free.

#350

Don't be afraid to deduct a legitimate home office—you can now claim up to $1,500 a year, with minimal recordkeeping.

#351

Review the assumptions an ex-employer has made in calculating your pension. Mistakes aren't unusual.

#352

Keep 5% of your portfolio in gold.

#353

Own gold through ETFs like GLD.

#354

When pundits declare the death of "buy-and-hold" it could well be the sign of a market bottom.

#355

Warren Buffett: "It's optimism that is the enemy of the rational buyer."

#356

Burton Malkiel: " 'Efficient markets' does not mean that the price of every security at every moment in time is correct."

#357

Look for undiscovered stocks with market caps between $1 billion and $10 billion.

#358

Understand how the businesses you invest in make money.

#359

If the short sellers are swarming around your stock, investigate the bears' thesis.

#360

When company insiders buy, you should, too.

A Cooke advisor helped her develop her interest in poetry; the foundation sent her to summer writing programs in New York State, North Carolina and Massachusetts as well as to a six-week summer study and community service program in Costa Rica. The foundation encourages scholars to do their own charitable works, and after years of hiding her own dad's incarceration, in 2010 Arrington started ScholarCHIPS to raise money for scholarships for the children of prisoners.

So is Cooke simply helping those so talented and motivated they'd succeed regardless? Froimson insists not. "Kids may start off as high achieving but will fall out of the pipeline given a lack of resources and challenges," she says. "It's important for philanthropists not to forget this population. They are our future leaders, and we are wasting talent when we let these kids slip through the cracks."

The foundation doesn't, however, limit itself to finding the best and the brightest at 13. It also awards 40 four-year college scholarships, worth up to $30,000 a year, to high school seniors who weren't in the early program; 75 two-year scholarships, also worth up to $30,000 a year, to poor kids who have aced community college; and a varying number of up to $50,000-a-year graduate scholarships to students who are studying music, art or creative writing.

On the college level the foundation fills gaps left after students have tapped other aid programs—gaps that scare some poor kids away and lead others to drop out. Most get federal Pell Grants, now as much as $5,645 a year, plus any need-based aid their college gives. Yet even at the handful of elite schools that claim to meet a student's full financial need, Cooke's support makes a difference. Typically a school's financial aid package requires the student to spend ten hours or so a week earning money at a campus job; Cooke usually replaces those earnings with a grant, so the student can spend time doing an unpaid internship or research, as a child from a wealthier family might. If Cooke scholars take student loans (or if their parents take out Parent Plus loans to pay the "expected family contribution"), the foundation helps them repay those loans—provided they graduate with at least a B average.

One transfer scholarship recipient is Renata Martin, a junior biology major at Brown who wants to be an oncologist. She was born in Brazil and grew up in Kearny, N.J., where her dad delivers pizzas and her mom cleans houses. In high school, as an undocumented immigrant ineligible for federal aide, she worried she wouldn't be able to go on to college. But she won a full merit scholarship from Essex County College, and during her second year there applied to 14 four-year schools and the Cooke Foundation. After she notified the schools that Cooke had awarded her $90,000 toward earning a B.A., the acceptances rolled in—from Brown, Johns Hopkins, Cornell and Georgetown, among others. She chose Brown, she says, in part for its liberal arts and creative community; in addition to medicine, she's passionate about music. Martin plans to apply for an M.D./Ph.D. program beginning in 2015 and hopes to research cancer disparities in low-income communities.

Fitting in as a low-income transfer student at an Ivy League school can be tough, she notes, but her own self-confidence and the support provided by both the foundation and other Cooke recipients have made the transition work. "We call each other 'Cookie cousins' because we believe that our common struggles and dreams make us a family. And when you have a second family, things become much easier." F

#361

Benjamin Graham: Those who want "freedom from concern" must accept lower returns.

#362

Warren Buffett: It is "far better to buy a wonderful business at a fair price than to buy a fair business at a wonderful price."

#363

Burton Malkiel: "Avoid the temptation to follow the herd."

#364

Steve Jobs: "Your time is limited, so don't waste it living someone else's life."

#365

Plan.

DARIO PIGNATELLI / BLOOMBERG; PETER FOLEY / BLOOMBERG; BETTMANN / CORBIS; AP

Billionaires' Bunkers

In anxious times home security goes sci-fi.

BY MORGAN BRENNAN

Al and Lana Corbi designed their Los Angeles home to protect against everything from home invasion to electromagnetic pulses.

TIM RUE FOR FORBES

Al Corbi's residence in the Hollywood Hills has the requisite white walls covered in artwork and picture windows offering breathtaking views of downtown Los Angeles, but it has more in common with NSA headquarters than with the other contemporary homes on the block. The Corbi family doesn't need keys (thanks to biometric recognition software), doesn't fear earthquakes (thanks to steel-reinforced concrete caissons that burrow 30 feet into the private hilltop) and sleeps easily inside a 2,500-square-foot home within a home: a ballistics-proof panic suite that Corbi refers to as a "safe core."

Paranoid? Perhaps. But also increasingly commonplace. Futuristic security technologies—many developed for the military but sounding as though they came straight from James Bond's Q—have made their way into the home, available to deep-pocketed owners whose peace of mind comes from knowing that their sensors can detect and adjust for, say, a person lurking in the bushes a half-mile away.

"If you saw this stuff in a movie you would think it is all made up," says Corbi, whose fortresslike abode doubles as the demonstration house for his firm, Strategically Armored & Fortified Environments (SAFE).

It's not hard to see why such cutting-edge technologies would appeal to high-profile homeowners. "We had an assessment done three years ago from a private security company," says John Paul DeJoria, billionaire founder of John Paul Mitchell Systems. "They said ... that every now and again you get a real kook, and what if they came to your home and tried to do something stupid?" Now his main residence has security "similar to that of the White House."

He's far from the only one. Chris Pollack, president of Pollack+Partners, a design and construction advisor based in Purchase, N.Y., says that while security has always been a given in building homes for his ultra-high-net-worth clients, the spending for home defense has increased markedly over the last five years.

It starts with a property's perimeter. "The exterior has always been the holy grail because you could never really protect it without 24-hour guard service," says Christopher Falkenberg, a Secret Service agent turned security specialist for high-net-worth families with New York-based Insite Security. Cutting-edge technologies have strengthened that fence.

For example, FLIR Systems, based in Wilsonville, Ore., manufactures infrared cameras that can read the thermal heat signatures off everything in their sight lines regardless of time of day or atmospheric obscurants such as smoke. Human beings throw off more energy


Adams
RUSSELL

Home fortress: a door with internal locks; monitoring security via tablet; a fog screen; a wine cellar turned bunker.

than trees or small animals, so the devices can pick someone out even from a hiding place, from a kilometer away in the lowest-end models to as much as 15 kilometers away in the premium versions.

Biometric technologies are becoming more prevalent, too. Moving beyond a fingerprint scan, some programs don't require a homeowner to touch anything at all. Former Israeli major general Aharon Ze'evi-Farkash, onetime head of the Israeli Military Intelligence Directorate, has spent the past three years with his company, FST21, creating a software product that merges facial, voice and behavioral recognition technology into a keyless entry system. "It transforms you into the key for your building in under two seconds," he says.

Windows remain an obvious and vulnerable entry point into a home. Glass-break detectors can operate within a 15-foot range, allowing them to be unobtrusively installed in the ceiling or on a wall near the window. The size of a silver dollar, they can be camouflaged in their surroundings, important when dealing with home finishes like gold-leaf ceilings or silk wallpaper. Some urban town house owners add a blast film to their windowpanes, which makes them nearly impenetrable, even if struck with a hammer or a pipe.

And don't forget the smoke. The Corbis have a system that billows out fog screens that range from a harmless smoke meant to disorient intruders to a noisome gas with disabling effects lasting up to 24 hours. Then there is the Burglar Blaster Decintegrator, a relatively discreet ceiling-mounted device that, when tripped, showers pepper spray.

Such smoke systems can even be laced with a "DNA code"—SelectaDNA, for example, comprises a series of unique, synthetic DNA chains that attach themselves to a fog-shrouded intruder. The invisible, harmless forensic code lingers on skin for weeks, shows up under UV light and, thanks to unique markers, can be traced directly back to a specific home.

The panic room has also undergone a high-tech evolution that makes the old Jodie Foster movie look quaint. A prominent author who declined to be identified has had his South Florida home jerry-rigged with a physical perimeter alarm, motion sensors throughout rooms and stairways, and

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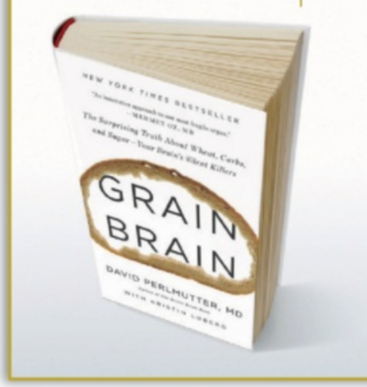

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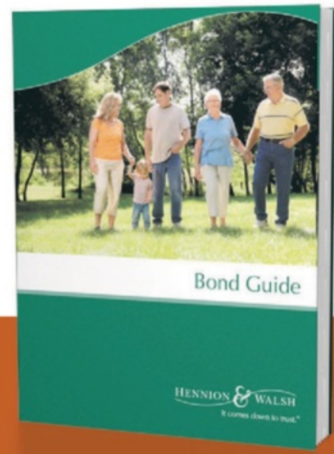

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a heat sensor that detects room temperature differentials caused by a sudden change in body heat. If worse comes to worst: The third-floor master suite is outfitted as a 2,500-square-foot safe haven. Switches installed throughout the house will encapsulate the space, locking down its three entrances with reinforced doors while alerting local authorities. Taking it further, the space's bathroom doubles as an inner panic room, protected by "a silent home defense system with sufficient armament." Fortunately, it has never come into use. "The best system in the world is the one you never use," says the homeowner. "But there is a lot of peace of mind that comes with it."

And there is more to worry about all the time. "Recently we have seen, especially in New York City, clients worried about dirty bombs," says Pollack, meaning chemical weapons. Air scrubbers can suck in fresh air from outside a space and filter it indefinitely. He recently oversaw one project that would allow the client to camp in his bathroom suite turned panic room for as long as a week, hopefully long enough to wait out the worst of the chemical attack.

> "Recently we have seen, especially in New York City, clients worried about dirty bombs," says Pollack.

Luxury home builders have discovered that buyers will pay top dollar for such extensively fortified mansions. One compound on hyperexclusive Indian Creek Island in Miami, Fla., completed in early 2012, includes a fully stocked safe room that operates on its own generator and has a separate ventilation system, a wine cellar wired with facial recognition software and an infrared surveillance system. The property traded last year for $47 million—the highest price ever paid for a house in Miami-Dade County. "In my opinion, will the buyer use [the panic room]? Probably never, realistically. But did it help sell the home? Yes, definitely," says Oren Alexander, of Douglas Elliman Real Estate, who cobrokered the sale.

Of course, without discretion even the best systems and safeguards can become vulnerable, warns Paul Viollis Sr., chief executive of Risk Control Strategies. His advice: All contractors and household staff should sign nondisclosure agreements and undergo background checks. When building or renovating an estate, the owner's name should never appear on legal documents or building plans submitted to local government; when plans are submitted, the security overlay should be filed separately from the architectural drawings so it doesn't become available to the public. Once privacy has been established the space can be properly secured.

And properly secured for a long time. In a twist of history that channels the Cold War basement bomb shelter—only with amenities more in line with the Greenbrier resort's now famous bunker for the U.S. Congress—the newest frontier in home security is the catastrophe plan.

Corbi says his SAFE has projects catering to such anxieties under way on four continents. These bunkers can span tens of thousands of square feet and tunnel as much as 30 stories into the ground. They are typically hidden in plain sight, accessed by secret passageways like rotating fireplaces and floors that lift up to expose an underground staircase.

Corbi's own home has such a facility in the basement—a space that doubles as a wine cellar. If the "safe core" is compromised or the rooftop helipad (complete with evacuation plans signed into a contract with a local helicopter company) isn't accessible, the family can retreat to this stronghold, thwarting natural disaster, nuclear holocaust or electromagnetic pulses emitted by the sun.

SAFE's bunkers operate on geothermal power and have sustainable food supplies, their own wells for water and full medical facilities. Many have amphitheaters, restaurants and health spas; for one client, Corbi designed a promenade with ceilings hand-painted with blue skies and "stores" displaying the family heirlooms. "These are things you would want to have personally, so right now it's an ultimate entertainment area, but if there was a disaster you could go there and stay for a long time," says Corbi.

A long time, indeed. He estimates that families could survive in the best planned of these luxurious strongholds for up to three generations. "They would be the new Adam and Eve, essentially, who would start up everything again." F

GOOD LIFE GADGET

WINE FOR ALL TIME

Wine by the glass is as great a pleasure at home as at a restaurant, and as big a bother: How do you keep an open bottle from spoiling? Wine lover Greg Lambrecht, an inventor of medical devices, teamed up with ex-Keurig CEO Nick Lazaris to think outside the cork. Their solution: Don't open the bottle. Their Coravin system uses a hollow needle so thin that it pushes the cells of the cork aside rather than piercing them. Your '61 Latour pours out (very slowly, it must be said) without letting oxygen in, and the airspace is refilled with inert argon gas. ($299; a three-pack of argon cartridges, about ten glasses each, is $29.99.)
—Meghan Casserly

Veterans a Great Fit for the Franchise Marketplace

The nation's most successful franchisers love veterans—not only for their service to our country, but because they offer the discipline, leadership and tenacity necessary to succeed in business.

BY MICHAEL RONEY

Franchisers now proactively recruit vets, often through the financial incentives, training and career-mentoring programs of the International Franchise Association's VetFran initiative. Among the most enthusiastic supporters are:

Tim Hortons Cafe Bake Shop:

As part of its commitment to the VetFran program, Tim Hortons, with more than 4,000 restaurants worldwide, waives qualified vets' initial franchise fees and reduces monthly royalty payments.

Dale Carnegie Training:

This renowned employee performance brand, boasting 180 franchises in more than 86 countries, has teamed with the University of Central Missouri to offer tuition assistance and GI Bill benefits to further support veterans' success.

The Maids:

This leading residential cleaning company, named one of the Top 50 Franchises for Veterans by the World Franchising Network (WFN), serves over 90 major cities and offers veterans a franchise fee discount through VetFran.

Realty Executives International:

Realty Executives International has offices in 28 countries and 10,000 agents worldwide. Since 1965, Realty Executives has been an industry leader. Today it is proud to offer a new program that supports the career goals of U.S. military veterans.

Wow 1 Day Painting:

This innovative newcomer placed 91st on the Forbes list of America's Most Promising Companies. Through Vet-Fran it offers 15% off all franchise fees for veterans.

Fresh Coat:

Fresh Coat is a veteran-friendly franchise opportunity, and offers a special discount to all veterans interested in becoming a Fresh Coat owner. In fact, more than 30% of the Fresh Coat Painter franchise owners are veterans.

As highly skilled, disciplined and motivated leaders with a strong work ethic, veterans are indeed a great fit for franchisers. That's why engaging with vets is a win-win for all parties.


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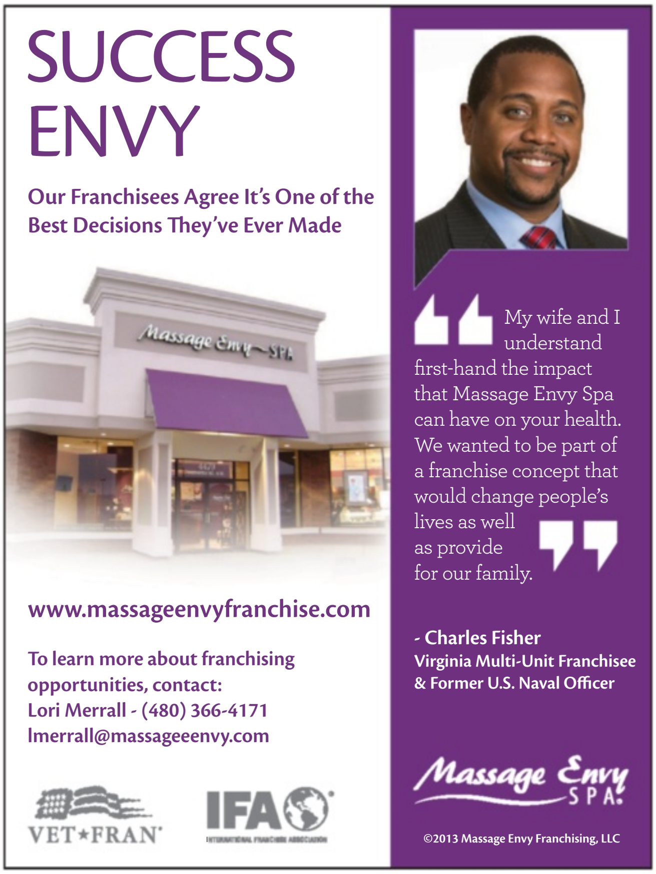
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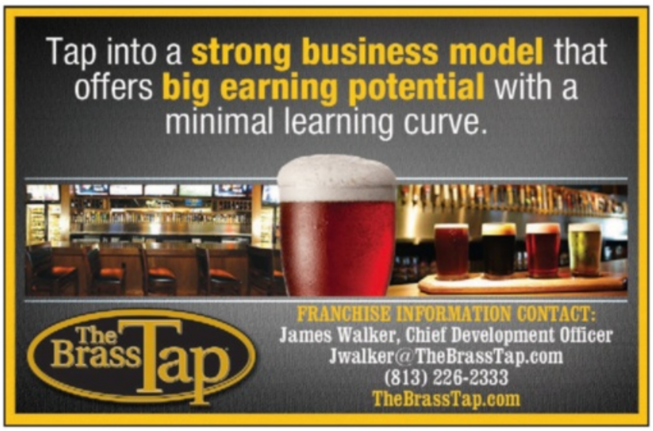
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FINAL THOUGHT

Christmas is a tonic for our souls. It moves us to think of others rather than of ourselves. It directs our thoughts to giving.

—B.C. FORBES

ON CHRISTMAS

"Clarence 'Sandy' Pratt is credited with being founder and first president of the Outdoor Christmas Tree Association. In short, he has launched a movement which has put trees in front of more than a million American homes to glimmer gaily with Yuletide brilliance. According to 'Sandy's' way of thinking, cut trees, destined for next-week's rubbish pile, are quite too temporary to express the eternal spirit of Christmas."

—FROM THE DEC. 15, 1940 ISSUE OF FORBES

OTHER THOUGHTS FROM THAT ISSUE:

CHRISTMAS SPIRIT STILL LIVES *"Not even Europe's most ruthless dictators can debase their people into becoming pagans. Christmas and everything it symbolizes will outlive the heathenism of soulless gluttons for merciless domination over their fellowmen."*

LUSTY INFANT *"This month commercial television celebrates its first birthday. And the National Broadcasting Co., as one of its proud parents, has brought out a noteworthy booklet-biography."*

I stopped believing in Santa Claus when I was 6. Mother took me to see him in a department store and he asked me for my autograph.

—SHIRLEY TEMPLE

For most of us it can be a Happy Christmas if by happiness we mean that we have done with doubts, that we have set our hearts against fear, that we still believe in the Golden Rule for all mankind.

—FRANKLIN D. ROOSEVELT

What I don't like about office Christmas parties is looking for a job the next day.

—PHYLLIS DILLER

Christmas is the season for kindling the fire of hospitality in the hall, the genial flame of charity in the heart.

—WASHINGTON IRVING

Christmas is a season not only of rejoicing but of reflection.

—WINSTON CHURCHILL

Santa is even-tempered. Santa does not hit children over the head who kick him. Santa does not have a three-martini lunch. Santa does not borrow money from store employees. Santa wears a good deodorant.

—JENNY ZINK
(ADVISING DEPARTMENT STORE SANTAS)

The joy of brightening other lives, bearing each other's burdens, easing others' loads and supplanting empty hearts and lives with generous gifts becomes for us the magic of Christmas.

—W.C. JONES

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