To Be a Winning Investor, Know the Risks

By CHUCK JAFFE

Challenges are more fun when you are winning. You don't need an academic study to know that.

Risk is key for both small investors and NYSE pros like this one.

Yet a pair of new studies on investor behavior suggest that investors are doing what feels good, rather than what most experts believe is right. If you fall into that category, you may want to toughen up and learn from the mistakes of others.

First, the research: An annual survey by the Investment Company Institute showed that mutual-fund shareholders' overall willingness to take investment risk hasn't rebounded since the financial crisis of 2008.

Some 30% of fund investors were willing to take substantial or above-average risk trying to register financial gains this May, down from 37% in May 2008, a few months before the financial crisis hit. The ICI, the fund-industry trade association, noted that the decline in risk tolerance between May 2008 and May of this year showed up across all age groups, but was more pronounced with older investors, who reported a much lower risk tolerance than their younger peers.

Meanwhile, a University of Missouri study published in the Journal of Economic Issues showed that investors have become wary about taking risks with the stock market while the U.S. economy recovery has been sputtering, and that risk behavior has been tied to market returns for a long time.

Rui Yao, a University of Missouri assistant professor in the Personal Financial Planning department, found that over the past two decades, people invest more when market returns are high, and withdraw partially or even completely from the market when returns are negative.

Those findings are hardly a surprise. But they are proof, according to Prof. Yao, that investors are buying high and selling low, thereby getting the worst of the market.

"To maximize returns, the ideal strategy is to buy stocks at a low price with the hope of selling them at a higher price," Mr. Yao said. "However, many investors seem to be unwilling to take risks when the market is at a low point and seem content to only invest when the market is at a high point."
The problem with these studies is that they are designed to measure risk tolerance. When the real problem is that most investors misunderstand risk itself.

People will say they can tolerate risk, so long as they don’t experience losses. They will settle for a near-zero return in a money-market fund because it is better than posting a loss without recognizing that they are losing buying power—ultimately the same impact as a loss every day their investments fail to beat inflation.

What many investors misunderstand is that, when it comes to risk, more is less. That doesn’t mean someone should rush right out and throw everything they have in the market sectors that are the shakiest; instead, it means that the way to beat back risk is to accept it in different forms.

**Purchasing-power risk**: Most people who want to avoid risk actually mean they want to avoid loss. They remove everything from the market and put it in their mattress, a piggy bank or a money-market fund—all providing roughly the same return these days.

While those methods protect against market risk, or the chance that, say, a double-dip recession or “flash crash” will drive down the value of any savings or investment holdings, they run the risk that inflation will outpace any asset growth.

**Interest-rate risk**: This is a key factor in the current rate environment, where the Federal Reserve’s main interest rate hovers near zero.

Investors face potential income declines when a bond or certificate of deposit matures and they need to reinvest the money at near-zero rates. By contrast, for investors who go chasing returns by using higher-yielding, longer-term securities, the potential arises to get stuck losing ground to inflation if the rate trend changes.

**“Shortfall risk”**: This is the possibility that someone won’t have enough money to reach financial goals. Many investors take this risk when they are too conservative during troublesome market times or too aggressive when things are good.

Investors who went whole-hog into technology stocks during the dot-com bubble got hammered when it popped; today’s sidelinesitter, conversely, might be missing out on low-priced stocks as they wait until they are more comfortable.

**Timing risk**: This is not so much about when you are buying or selling as it is about your personal time horizon. To put it simply, the chance of stocks making money over the next 20 years is high; the prospects for the next 18 months are murky. If you need money at a certain time, this risk must be factored into your asset allocation.

If the studies show anything, it is that investors definitely don’t understand opportunity risk. Consider this the greed factor, the chance of missing out. Opportunity risk runs against innate human psychology, as people perceive opportunities at just the wrong times. They will jump to buy when the market is at the end of a good run and hesitate when the market has fallen to lows that have put quality companies on sale.
Even after all of those risks, there is currency risk, credit risk and more. Each and every type of risk deserves some consideration in portfolio construction.

So if you are the investor described in those studies, the question should not be whether you are avoiding risk given current market conditions, but whether you have accepted enough different forms of it.

Said Prof. Yao: "Having the ability to understand risks and assess risk tolerance has a direct impact on individual well-being."
Cold science heats up

By T.J. Greaney

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For a group of Israeli scientists, 64 has become a magic number.

That’s because it was the 64th trial of an experiment that yielded results that, they hope, will one day change the world.

Six years ago on a Sunday morning in a laboratory in Omer, Israel, researchers walked in to find that something extraordinary had happened. Water they’d left at room temperature two days earlier had boiled for more than five hours.

“I remember when” Tanya Zilov, an electrochemist, “started to scream,” recalled Shaul Lesin, the CEO of Energetics Technologies. “I came running from my office. I thought something broke.” What Lesin saw was evidence on a computer screen that 25 times more electric energy was being released than had been put in. For him, it meant the team’s efforts to produce a low-energy nuclear reaction commonly called “cold fusion” might have succeeded.

“I looked at the screen and we started to dance, right there in the lab,” Lesin said.

The experiment involved a thin foil of the metal palladium bathed in “heavy water” that was saturated with a form of hydrogen called deuterium. When an electrical current was pulsed through the metal foil, the deuterium was loaded onto the palladium foil and gave off heat. What made this so special was that it had all happened at a low temperature without giving off harmful radiation typically seen in nuclear reactions. If repeatable, it could provide a safe, cheap and clean form of energy capable of powering cars or heating homes, Lesin believed.

“We kept looking on the graphs and at the raw data, just trying to find the error,” Lesin said. “Every time, we try to be skeptical and we try to find the error. But we couldn’t find it.”

In April 2009, Energetics Technologies was featured on the CBS newsmagazine “60 Minutes.” As part of a report titled “Cold Fusion is Hot Again,” CBS invited Rob Duncan, the University of Missouri vice chancellor for research, to Israel and asked him to independently verify Energetics’ results.
Duncan, like most in his field, thought cold fusion was a dead science. “My first response when 60 Minutes called was: ‘You’re kidding — that’s been debunked a long time ago,’” Duncan recalled.

He had good reason to believe that. In 1989, cold fusion burst onto the national stage when two physicists, Stanley Pons and Martin Fleischmann of the University of Utah, achieved results similar to those of Lesin and his team. Before publishing their findings, the scientists announced their discovery at a large news conference. The prospect of unlimited energy from an element found in seawater — deuterium — set off a feeding frenzy. The scientists appeared on the covers of *Time* magazine and many major newspapers.

Amid the hoopla, reporters coined the term “cold fusion,” which followed the scientists’ hypothesis that deuterium atoms had fused to form helium in a manner similar to the nuclear reaction that fuels the sun. The scientists believed they had done so at room temperature, hence the term “cold.”

But the truth was that nobody knew exactly what had happened. The scientists later regretted the name “cold fusion” and the news conference.

“This was a very, very bad media strategy,” Duncan said.

Things went downhill fast. Hundreds of researchers across the country dropped what they were doing and, in 1989, tried to replicate the results. No one could. A panel of top researchers assembled by the Department of Energy determined the next year that the inconsistency of the findings warranted no further research funding for cold fusion. Good science should be reproducible, the DOE panel said, and cold fusion simply wasn’t.

Fleischmann saw his career and reputation ruined, and cold fusion was derided as the alchemy of the 20th century.

But research never completely stopped. Duncan said that between 1990 and 2009, 20 laboratories around the world replicated Pons and Fleischmann’s study. Some of the most exciting results happened at the Naval Research Laboratories, where scientists loaded microscopic “nano-particles” of palladium with deuterium. They repeated it tens of thousands of times and measured excess heat every time, Duncan said.

Lesin and his team in Israel also were seeing tantalizing results. Since 2001, Lesin and University of California-Berkeley nuclear engineer Ehud Greenspan and others had been testing low-energy nuclear reactions in electrolytic cells. They cited hundreds of instances of observing excess heat, although they cautioned the electrolytic cells often had to run for weeks or months before the reaction occurred, and the output varied widely. Sometimes they saw enough energy to power a high-powered lamp, sometimes there was barely enough to turn a hamster wheel and sometimes there was nothing at all.

But the Energetics team believed it had a unique method. Unlike other researchers who used a direct electric current or sine wave to power the electrolytic cell, the researchers at Energetics
Technologies use a modulated electric current. The technology was developed by a medical doctor, Irving Dardik, who believed that by layering waves of electric current within each other — "waves waving within waves" — he could help load deuterium into palladium at a greater level.

"The concept is that instead of looking at the world as being made of parts, it’s that fundamentally everything is made of a wave," said Allison Godfrey, an Energetics co-founder who is married to Dardik. "In creating the right kind of waves, you can create things that people didn’t think were possible before, such as cold fusion."

Duncan compared the modulated electrical current to a person trying to push a car out of a snow bank. If he pushes the car in a straight line, it doesn’t matter how much force is behind it, the car stays stuck. But if he rocks the car back and forth, in a manner similar to a pulsed wave, the car becomes dislodged. Duncan said using pulsed energy seems to help load more deuterium onto palladium foil. Palladium looks like a lattice at the atomic level, and the pulsed energy helps push deuterium deeper inside the lattice.

Recent research has shown that the more deuterium that can be loaded into the palladium lattice, the greater the chance for producing excess heat.

Energetics researchers have picked up key allies along the way. In 2001, Sidney Kimmel, founder of the Jones Apparel Group, agreed to fund the research as an investor. Kimmel, a major philanthropist who has donated $500 million to cancer research, remains excited by its potential as an alternative energy source.

"There is a belief that this will lead to something," said Matthew Kamens, an attorney for Kimmel. "What it is, I don’t know. I don’t know whether Albert Einstein or Alexander Graham Bell knew when they sat down to do whatever they did, whether they thought they were going to end up discovering the theory of relativity or the telephone. But that’s what happened."

More recently, Duncan also became a supporter. He gave two lectures at MU last year and several others around the nation urging scientists to set aside the rhetoric and conduct a rigorous examination of the findings reported by Energetics and others.

"When we see a phenomenon that surprises us, we should approach it with the scientific method and with curiosity," Duncan said. "The problem here is the problem you traditionally have with new technology. Everyone wants to jump ahead to try to figure out what it may end up being ... but what you really need to do is say, ‘This is something we haven’t seen or understood before; let’s try to understand it.’"

Last year, Kimmel placed a phone call to Duncan and began discussions about bringing Energetics to the MU Life Science Business Incubator. Incubator President and CEO Jake Halliday said researchers at the incubator could benefit not only from top-flight facilities but also could collaborate with leading-edge scientists from fields including plasma physics, nanotechnology, electrochemistry and material science.
Late last year, Energetics sealed the deal. In January, it shipped two 16,000-kilogram containers from Israel to Columbia with stops along the way in Valencia, Spain; New York; and St. Louis. Seven Israeli researchers also moved to Columbia, and Energetics has hired two full-time people locally, plus a part-time employee. In two or three weeks, they hope to finish calibrating their instruments and unpacking the millions of dollars worth of equipment and begin experiments. They will operate out of the incubator as an independent private business.

Halliday said the focus will be on improving the repeatability of Energetics' low-energy nuclear reactions and, ultimately, developing a product they can take to market. “They are seeing excess heat, but sometimes it works and sometimes it doesn’t,” he said. “Sometimes it’s a little, and sometimes it’s a lot. So clearly we don’t understand the process, and this company and this laboratory is established to achieve reliable results.”

To accommodate the Israeli scientists, Halliday’s team orchestrated a massive build-out of the laboratory space in the business incubator off of South Providence Road. For starters, they had to add new power outlets. All of the Israeli equipment runs on 220 volts, and U.S. outlets are 110 volts. The lab space also needed to be climatized at levels more restrictive than even a surgical operating room. Energetics scientists measure heat in the tiny unit known as a “millijoule” and even the slightest outside disturbance could throw off the measurements, Halliday said. In that spirit, the lab also needed to be grounded to prevent interference from even trace amounts of electrostatic energy.

Energetics invested nearly $1 million in the lab, and the MU incubator paid $225,000 for the office suites.

In the coming months, Lesin and his team plan to monitor several electrolytic cells while experimenting with different inputs. It’s unclear what combination of liquid, gas or plasma will maximize the loading of deuterium onto palladium metal.

But many outside observers still are skeptical. Some physicists believe the excess heat Lesin and his team reported is simply the result of a measuring error. Even though Lesin rigorously insulates his electrolytic cells and calibrates his instruments, they question whether he is properly measuring the energy input.

Even staunch believers in the possibilities of low-energy nuclear reactions, or LFNR, have questioned Energetics’ methods. Steve Krivit, an investigative science journalist and editor of New Energy Times, said he thinks that by focusing exclusively on measuring heat, Energetics is missing a chance to understand the underlying science.

“The problem is that people in the field in general do not understand what is creating the heat or how to create it,” he said. “They don’t have good control over it, and they don’t fundamentally understand what’s going on. And if they don’t fundamentally understand what’s going on, they could just be spinning their wheels.”

Krivit believes Lesin should focus on looking for alpha and neutron emissions that might offer evidence of a nuclear reaction. At this point, Krivit said, any research on LFNR is scientific
exploration in its purest form. It will not yield a marketable product in the near future, he said, which appears to be Energetics' goal.

"In my view, they're putting the cart before the horse," he said.

But Halliday said the collaboration with MU will most certainly explore the science underpinning LENR. Krivit's "suggestion is a good one, and that's what we're doing," Halliday said.

But Lesin also is convinced a commercial application is possible soon. He remembers trial run No. 64 and believes replicating those fantastic results is not far off. It just requires a process of trial and error that's steadily getting him closer.

"If I wouldn't believe it, I wouldn't be here," he said. "I saw it with my own eyes every time that it happened."

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Fund aims to give entrepreneurs a leg up
By Janese Silvey
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A new University of Missouri System enterprise fund will help fill the gap between an idea and an invention that has developed enough to secure outside funding.

“The Enterprise Investment Program was the missing link,” said Gregg Scheller, director of enterprise and industry partnerships at the university.

A panel discussion about how to fund new business ventures capped a daylong series on commercialization at the Bond Life Sciences Center on the MU campus yesterday. The panel discussions were part of MU’s first Missouri Technology Expo, which also featured student presentations and guest speakers from across the state.

UM launched a $5 million investment fund this year to provide seed money for those who want to commercialize a university-developed technology or start a new business venture. The system is accepting applications for funding through the end of this year.

That should help would-be entrepreneurs get the boost they need to flesh out an idea enough to take it to more serious investors.

During an afternoon panel discussion yesterday, Scheller joined a venture capitalist and a representative from the local angel investor network, Centennial Investors, to talk to a room of potential business owners about starting new ventures.

“There is a lot to this,” Scheller warned. “You have to go into this with your eyes wide open.”

He should know. He created a medical device in his garage in 2000, and by the time he sold the company built around that device in 2008, it employed 400 people and generated $60 million in revenues a year.

Scheller advised the mostly male audience to pursue ventures in areas where they’re passionate and already have some expertise.

Angel investors provide money for projects in the early stages of development, said Andrew Beverley, a founding member of Centennial Investors Angel Network and Landmark Bank president. The only potential drawback for inventors is that they typically want some ownership and control of the company.
Centennial Investors started in 2006 and has invested into a handful of companies, including Newsy.com and Equinosis, a company that sells equipment to veterinarians to test horses for lameness.

Unlike angel investors, venture capitalists wait until a project is off the ground before providing funding, said Brian Clevinger, who’s with an investment group in St. Louis that specializes in medical equipment. Getting venture funding is a little trickier, he said.

"You have to be a pest," he advised. "Keep calling, because I’ve got 400 other people calling and harassing me, too. So the biggest pest wins."

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WASHINGTON — If the 2010 campaign signals that the dam on political giving has burst, Missouri is already awash in campaign cash.

Special interest groups have already spent more than $6 million to affect the outcome of the Missouri Senate race, according to the nonpartisan Center for Responsive Politics, a campaign finance watchdog dog.

But according to the candidates’ own tracking of outside spending, it is likely even higher. On top of that, the identities of a lot of the donors are secret.

As Democrat Robin Carnahan, the Missouri secretary of state, and Republican Rep. Roy Blunt battle over an open Senate seat, independent expenditures by outside groups account for nearly a third of all the campaign dollars raised so far.

And more is likely on the way.

“We’re seeing a lot more independent money flowing in this year than we have in the past,” said Peverell Squire, a professor of political science at the University of Missouri. “It’s going to be a very expensive race. As long as the polls show that it’s still competitive, we’re going to see unlimited money on both sides.”

It’s all part of a massive midterm election spending spree by corporations, unions and other outside groups no longer hemmed in by contribution limits.

The U.S. Supreme Court last January in case known as Citizens United gave a “green light to corporations and unions to spend unlimited amounts on ads and other campaign activities that can urge voters to directly oppose or support individual candidates,” according to a report last week from the nonpartisan Center for Public Integrity.

The center, an investigative journalism group that focuses on government transparency, called the new spending landscape “a virtual Wild West, with fewer rules and more cash than ever.”
But what’s also new in this campaign is that a lot of donors now remain unidentified. The tax code under which many of the new independent groups have been set up requires them to reveal their donors only to the IRS.

This leaves the public in the dark as to who is actually paying for many of the campaign ads now dominating local television.

“There’s a lot of no-fingerprints money floating around out there.” said David Vance, a spokesman for the nonpartisan Campaign Legal center, which focuses on campaign-related issues.

Independent expenditures are funds spent to aid or oppose a candidate and are not coordinated with a campaign. Corporations, unions, environmental groups, advocates for social and cultural issues and a host of other concerns all wade in.

They’ve poured half a billion dollars into Senate and House races this year already, according to a new study by the Center for Public Integrity, and there’s still three weeks left before Election Day.

It said that conservative groups tilted toward Republicans have a clear advantage and could outspend their Democratic-leaning counterparts by 2-1.

At $16 million, the U.S. Chamber of Commerce is a leading independent expenditure group, according to groups which track campaign spending. At least $1 million of that money has been spent on ads in Missouri.

The chamber has come under fire this week over allegations that it accepted illegal foreign donations and that some of the money has been used to finance its issue ad campaigns in support of Republican candidates, like Blunt.

Blunt campaign spokesman Rich Chrismer directed questions about the controversy to the chamber, which has denied the claim.

Another group taking advantage of the new terrain is Crossroads Grassroots Policy Strategies, started by Karl Rove, a top White political operative under former President George W. Bush, and Ed Gillespie, a former Republican Party national chairman.

Crossroads GPS and its sister group, American Crossroads, recently purchased $4.2 million worth of campaign advertising in Missouri and seven other states with competitive Senate contests. They plan to raise $52 million to defeat Democrats this year.

Both groups combined have spent $1.5 million already in Missouri against Carnahan, according to opensecrets, and much more is in pipeline.
“Missouri is a must-win state for Republicans who want to put the brakes on the Obama agenda in the Senate,” said Crossroads spokesman Jonathan Collegio. “It’s the quintessential swing state, and the Democrat there is running a particularly hard-edged campaign.”

Meanwhile, the American Federation of State, County and Municipal Employees union has spent nearly $1 million on anti-Blunt ads, and the League of Conservation Voters has spent $400,000.

Overall, independent groups opposed to Blunt have spent $3.4 million on issue advocacy ads, while groups opposed to Carnahan have spent more than $1 million, according to OpenSecrets.

The Carnahan campaign, however, said that its own analysis of ad buys at Missouri television and radio stations was more up-to-date.

It indicates that so far, pro-Blunt and pro-Carnahan groups have each either spent or made plans to spend close to $8 million on issue ads against one candidate or the other. The bulk of the spending benefiting Carnahan comes from the independent arm of the Democratic Senatorial Campaign Committee.

“After carrying the water for out-of-state interests for years, Congressman Blunt is cashing in as lobbyists make a down payment on their special interest candidate,” said Carnahan spokesman Linden Zakuza.

Chrismer countered: “Robin Carnahan’s liberal allies in Washington D.C. have been airing ads since April 2009 because they know she will be a rubberstamp for Barack Obama. They are willing to spend as much as it takes to try and buy this election.”
San Francisco Chronicle

Corn Crunch Means Costliest Beef in Quarter Century

Sunday, October 10, 2010

Oct. 11 (Bloomberg) -- Meat prices are poised to extend a 14 percent rally this year that drove U.S. retail costs to the highest levels since the 1980s as surging corn futures prevent livestock producers from expanding their herds.

The U.S. cattle herd in July was the smallest since 1973 and the number of breeding hogs last month was near the lowest ever, government data show. Corn futures jumped to a two-year high today and the price of the main feed ingredient is more than 70 percent above the 10-year average.

U.S. per-capita beef supplies next year will be the lowest since 1952 and pork the smallest since 1976, industry researcher CattleFax said. Hog futures will rise 14 percent by July and cattle may gain 3.6 percent by April, according to a Bloomberg survey of analysts. Wendy's/Arby's Group Inc., the maker of the 1,360-calorie Baconator Triple burger, and CKE Restaurants Inc., owner of the Hardee's chain, have warned investors they are contending with higher commodity costs.

"If grain prices go up, then meat prices are going to have to move up," said Mark Greenwood, a vice president at AgStar Financial Services Inc. in Mankato, Minnesota, who oversees $1 billion in loans and leases to the hog industry. Corn costs "tempered any enthusiasm there was on expansion," he said.

Livestock prices failed to keep pace with third-quarter rallies of as much as 40 percent for corn and wheat, as too much rain and heat eroded U.S. yields and drought hurt crops in Russia and Europe. Cattle futures rose 11 percent in the period and hogs dropped 8.3 percent.

Corn soared the 45-cent maximum limit allowed by the Chicago Board of Trade today to $5.7325 a bushel, the highest price since September 2008, after the U.S. Department of Agriculture on Oct. 8 cut its harvest forecast for the second time in two months. Wheat, soybean and oat futures also rose.

Cattle Feedlots

U.S. cattle feedlots that didn't lock-in corn costs faced losses in the third quarter, said Ron Plain, an economist at the University of Missouri in Columbia. Feedlots made money in the first half after two years of unprofitable markets from surging feed costs and the global recession, he said.
"Normally, six months of profit will get you to the early stage of herd expansion," Plain said. Costlier corn "slows expansion plans," he said.

Farmers may earn $5.46 per hog in the first seven months of 2011, according to Steve Meyer, president of Paragon Economics in Des Moines, Iowa. That's down from his July forecast of $19. Cattle feedlots lost about $17 a head last month, compared with profit of $42 in the first half of 2010, Plain said.