

NICKEL AND DIMING

Intrigued by Mr. John, I naturally wanted to know more about the types of investments he'd made over the years. So I offered to conduct a portfolio review, a process I used in my previous career as a financial advisor. Mr. John accepted my offer and invited me to his home.

Mr. John lives in a tree-lined neighborhood in one of Baltimore's famous row homes. The homes, designed by a renowned architect, have flagstone exteriors complemented by manicured landscaping. He greeted me at the door and introduced me to Delores, his wife of 36 years. Mr. John took great pride in showing me his home improvement projects in their modestly furnished home. In particular, he had paneled part of the living room and lamented that it still needed a few finishing touches.

The Portfolio Review

Settling down at the dining room table, I took out a

legal pad and calculator, and prepared to review Mr. John's portfolio, which discloses how someone's financial journey began and has progressed. The process reveals a lot about a person's investment experience—and I wanted to learn about his. He took out an accordion file and handed me statements from each of his main accounts. I wrote these headings on my legal pad: Date of Purchase, Security Description, Type of Account, and Market Value.

Mr. John's Non-retirement Accounts

We began by listing these four elements under the heading Non-retirement. Mr. John handed me the confirmation statement from his first purchase of IBM stock that he mentioned during his radio interview. He also showed me the dividend reinvestment statement from IBM. Then we listed 963 shares of Employer Bank, the stock from his employer that he purchased through payroll deduction. It had a current value of approximately \$30,000. He also held several individual stocks in odd amounts: 113 shares of Duke Energy, 122 shares of Exxon, 5.33 shares of Bell South, and 54.38 shares of Colgate Palmolive. The reason for these odd amounts became clear to me later.

In addition to individual stocks, Mr. John had a number of mutual fund holdings. His first mutual fund investment was in the Fidelity Destiny II Fund, pur-

chased through a broker. Through this contractual arrangement, he committed to invest \$25 a month for 15 years. Although it carried a sales charge of 8.5 percent, it was now valued at more than \$38,000.

He also purchased the no-load Fidelity Fund after dumping the Fidelity Magellan fund because of its recent lackluster performance. But he wasn't happy with his decision to sell the Magellan Fund. You see, portfolio manager Peter Lynch was one of his investment idols and although Mr. Lynch no longer managed the fund, Mr. John felt remorseful because it had been an exceptional performer in his portfolio. I also learned that I might have played a role in his decision to sell the fund. He had called into the radio show to ask my opinion and I suggested that it might have run its course. I was surprised to learn that he respected my analysis of the situation and recognized our radio show was providing listeners information they used in making investment decisions.

I noted that his investments were well diversified between stocks, mutual funds, and money market accounts. In fact, his portfolio mirrored those of many wealthy clients I had assisted throughout my career.

Mr. John's Retirement Accounts

Then we shifted to his Retirement portfolios. He'd invested a sizeable amount in his employer-sponsored

401(k) retirement plan, which held more shares of Employer Bank stock. He'd invested his annual IRA contributions in the Legg Mason Value and Special Investment Trust funds managed by Bill Miller, another outstanding portfolio manager. I later learned that Legg Mason had offices in Mr. John's employer's building, which helped explain why he initially invested his IRA contributions in its mutual funds. Convenience aside, Mr. John believed in "betting on the jockey," meaning investing in accounts with a portfolio manager who had a winning track record.

After reviewing his portfolio, I noticed that his IRAs were valued at more than his 401(k). This rarely happens because most people can contribute up to 15 percent of their salaries to their 401(k)s, and in many cases their employer matches a percentage. In comparison, at the time of Mr. John's portfolio review, the maximum contribution to IRAs was a few thousand dollars a year.

Mr. John's Investments for his Children

Next, we looked at the investments he'd made on behalf of his three children, who were all over 30 years old. Each child had shares of Exxon, Colgate Palmolive, Bell Atlantic (Verizon), and Lucent Technology. The number of shares in each stock varied from 7 to 75.

He had enrolled all of the accounts in Stock Dividend Reinvestment Programs, also known as DRIP

plans. I asked Mr. John if his children knew about these investments and he said, “Yes. But I manage their accounts and hoped that one day they would follow my example.”

How It Added Up

After listing and calculating the value of the holdings in his portfolio, I determined how his investments were allocated between stocks, bonds, and cash. This allowed me to research his portfolio’s industry weightings and make sure he wasn’t heavily exposed in a specific sector or company within his portfolio. Then I reviewed how his investments performed relative to similar investments over the same holding periods. Finally, I needed to determine if his portfolio met his objectives for future planning.

I realized Mr. John had no idea how much his overall portfolio was worth. After he pulled investment statements from every nook and cranny in his house, I used them to calculate the total value of his investment portfolio—\$434,000. Not bad for a bank employee. But I still needed to know how much Mr. John earned at the bank and when he would retire to determine whether his portfolio would meet his objectives.

Nickel and Dimin’ in Practice

I plunged in, asking, “Mr. John, how long before you can retire?”

“Oh, I plan on retiring in two years when I turn 65. That’s when I’ll collect social security,” he said.

“What’s your position at the bank and how much do you earn?” I asked.

“I’m the parking attendant and have been for 33 years. I earn just about \$2,000 a month,” he replied. “You see, I don’t have much of an education. I was labeled a slow learner and dropped out of school in the eighth grade. That didn’t stop me, though. I went to Frederick Douglas High School at night and finally earned my high school diploma. When I started working at the bank as a custodian, I earned \$70 a week. I got a promotion to the parking attendant job and really enjoy it. I’m responsible for making sure the bank patrons can find a parking space when they visit the bank. I’ve had a great run.”

I almost fell out of my chair. “How in the world were you able to save this much money as a parking attendant?” I asked.

“Nickel and dimin’,” said Mr. John.

“Nickel and dimin’,” I repeated. “What is nickel and dimin’?”

Mr. John explained, “There are two parts to “nickel and dimin’. There are nickel-and-dime *jobs* that pay \$10 or \$20 every week. That’s what I earned from cleaning the Italian bakery shop and jewelry store, and landscap-

ing outside the bridal shop across from the bank. The second part is nickel-and-dime *investments*. The \$20 or \$30 extra I earned each week added up to over \$100 a month.” And that’s how he scraped up the first few hundred dollars to buy the IBM stock—investing the money from his nickel-and-dime jobs in blue chip stocks.

Now it all made sense. His shares of Baltimore Gas & Electric, IBM, and Colgate Palmolive had initially been purchased by nickel and dimin’ and the odd numbers of shares of stock that he owned resulted from buying one or two shares at a time and reinvesting the dividends.

Access and a Mechanism

In his early years on that parking lot, a bank executive took Mr. John aside and told him that he couldn’t go far with a limited education, and suggested he should save a few dollars toward his future. That was the first of many pieces of advice he received from his interactions with bank customers and employees. Mr. John took that advice to heart and acted on it.

Mr. John’s accomplishments held extreme significance for me. Finally, someone could demonstrate that one’s station in life did not determine what could be achieved.

You see, I had always believed that people simply

~ Nickel and Dime Your Way to Wealth ~

needed access and a mechanism for investing. It goes against the common belief in Middle America that investing is *for* the rich, not *how* to get rich. Early in my career, I remember inviting average folks into marbled, plush-carpeted offices and saw how many felt intimidated the environment. They associated it with being reserved for “rich people only.” And while conducting a seminar at a university, a college graduate told me that investing was like gambling or “magic.” Mr. John validated what I had always believed: Investing is not just *for* the rich; it’s *how* you get rich!

How could I share that story through Mr. John’s example? I didn’t want to divulge too much for fear that I could jeopardize his anonymity. Of course, I should have known better than that. Mr. John was proud of what he had accomplished, yet he didn’t brag or boast. Humility is his strong suit and he carried himself in that manner. In fact, many of his coworkers said he was a little too humble. Watching him greet and attend to customers in the parking stall reminded them of the days it was the only job available to a black man. But Mr. John didn’t allow himself to dwell on how he might be perceived by other people. He had work to do and little time for stewing. So he encouraged me to tell his story in detail so others could learn how to “nickel and dime,” too.