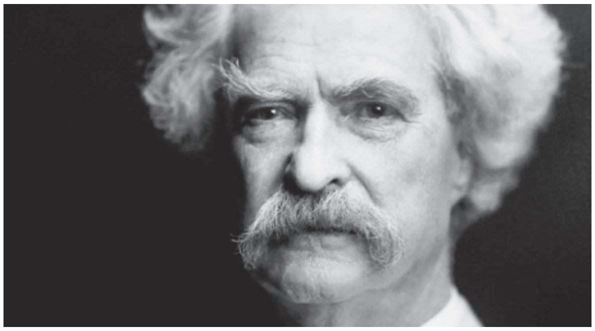
THE TYLER GROUP Financial Services

Sound Advice

Mark Twain:
Investment Lessons from a Literary Legend

By Rod Tyler, CFP, R. F. P. , CLU

In this issue of **Sound Advice**, I will again invite you to consider the question: Why do really smart people make really stupid decisions about money? Could it be that being successful as an investor has more to do with a high EQ or Emotional Quotient, than a high IQ or Intelligence Quotient? In this segment of the story, we explore the successes and failures of a renowned American writer and humorist, Samuel Longhorn Clemens, better known as Mark Twain.



Mark Twain

Mark Twain is best known for two of his most popular books: *The Adventures of Tom Sawyer and The Adventures of Huckleberry Finn*. However, when you consider the events of Twain's long lifetime, from 1835 to 1910, a time in which American history included the existence of slavery, its ultimate abolishment in the American Civil War, the settlement of the American West, the introduction of regular trans-Atlantic travel, as a backdrop to his extensive writings and humorous commentary on the consistency of human behaviour, it is all the more remarkable. Consider these priceless gems:

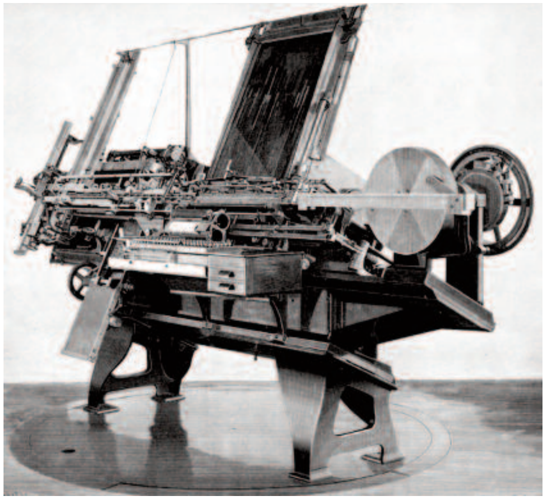
"The lack of money is the root of all evil."

"If you tell the truth, you don't have to remember anything."

While Twain is best known as an author, he was also an avid investor, inventor and a speculator, especially in new scientific inventions. As a young boy and later as a young man, he had worked as both printer and typesetter in several newspapers before becoming a newspaper reporter, and then a celebrated writer. Undoubtedly his own fascination of new inventions, together with his knowledge of printing, made investing in a new printing technology all the more compelling.

Mark Twain was personally aware of the labour-oriented task involved in typesetting. He was once a member of the labour union representing typesetters. Nevertheless, he was mesmerized by the possibility of investing in a new technology called the Paige Compositor, which could revolutionize the publishing industry. The idea of investing in an industry he knew well, one in which he could potentially produce a huge profit by replacing manual work with machine speed and precision, was captivating to him. In fact it was so appealing that **he eventually invested virtually all of his savings, and his wife's inheritance, in addition to some borrowed money for a total of $300,000**. If you converted that amount of money to current dollars, it would be $6 million U.S. or about $7.8 million Canadian today.

Unfortunately, the inventor of the machine, James Paige, was a perfectionist. He would not release the machine



Paige Compositor

to market until it met with his unrelenting specifications. When he eventually did release his invention fourteen years later, competitors were selling more efficient and less expensive machines that rendered the Paige Compositor irrelevant. Had Paige been willing to release the machine years earlier, there would have been a chance that it could have sold enough to provide not only a source of income for the Paige business, in addition, his invention could have benefited from the input and improvements that other users would have provided. This is a model of development that has proven to be extremely successful for numerous companies. Users help a company perfect a technology and thus become virtual business partners, while simultaneously enhancing their own productivity. The old idea of the inventor as a genius in a laboratory or garage, is highly overrated. Instead, today collaborative improvement is how modern growing and innovative companies perfect and improve new equipment and processes. To learn more about this idea, be sure to read my next article, *A Virtuous Circle of Continuous Innovation*.

So let's consider why Mark Twain put himself in such great financial jeopardy.

The answer is that he committed two classic investing mistakes:

Mistake #1: Mark Twain fell in love with an idea, an idea based on his knowledge and involvement with the printing industry. He envisioned that this invention could change the printing industry, even if it was taking too long to put into commercial use.

Mistake #2: An even more serious mistake was the investment of **more money, much of it borrowed, and more than he could afford to lose** on a speculative investment.

The result was that Twain was left financially destitute at 59 years of age, when ultimately the Paige Compositor failed. Despite this horrific outcome, the rest of the story is even more fascinating and one that alters our view and the reputation of Mark Twain himself.

Faced with financial ruin when the Paige Compositor investment became worthless, and in debt to numerous other creditors for significant amounts of money, Mark Twain fell back on what he did best: writing and public speaking. In addition, he was befriended by a financier, Henry Rogers, a principal in Standard Oil. Rogers convinced Twain to file for personal bankruptcy in 1894. He also got Twain to transfer the copyrights on his existing written works to his wife, Livy, thus protecting against creditors from taking possession of his lifework and most valuable asset. Then Rogers took direct control of Twain's finances until all the creditors were eventually paid in full.

In order to do this, Twain embarked on a year-long, round the world speaking tour. Even though he was ill most of the time, the much beloved author of Huckleberry Finn and Tom Sawyer fame was in great demand as a public person. Indeed, one of his destinations was Vancouver where he delivered one of his trademark monologues, complete with two hours of wit and wisdom. Today we would recognize this form of presentation as a combination of standup comedy blended with the wisdom of a long life of observing human behaviour.

After circumnavigating the world and speaking to packed theatres, Twain was able to earn enough money to repay all of his debt. In doing so, he rescued his reputation, and the three months that he spent in India became the basis of a new book entitled: Following the Equator.

Twain famously quipped in 1909, a year before Haley's Comet was due to re-appear, "I came in with Haley's Comet in 1835. It is coming again next year, and I expect to go out with it. It will be the greatest disappointment of my life if I don't go out with Haley's Comet. The Almighty has said, no doubt: 'Now here are two unaccountable freaks; they came together and they must go out together'."

As it turned out, his prediction of his own demise was absolutely accurate; he died of a heart attack on April 21st, 1910, one day after the Haley Comet had returned and came closest in its approach to Earth.

As a testament to his willingness to overcome his financial folly and repay his debtors, Twain's final estate was valued at $471,000 USD, or about $12 million USD in current dollars. All of that was accomplished in the last years of his life.

What are the lessons we can learn from Mark Twain?

Number 1: "Only invest in a speculative investment the amount of money you can afford to lose."

Number 2: "Failing to diversify your investment portfolio is a major mistake that will put you at great risk. Instead of investing, you have now become a gambler." And that almost never ends well.

Why We Choose to be Independent

PART 2

Click here to read Part 1

By Rod Tyler, CFP, R. F. P. , CLU

This week, all of us at **The Tyler Group** were once again reminded why we value our independence as advisors. I invite you to follow along with me in order to understand why I believe this is so important to you.

Last week I was preparing to participate in a panel discussion in Toronto as part of a major financial industry seminar. The question asked of the panel was this: "Why do you choose independence?" The unspoken question was "Wouldn't it be easier and safer to work at one of the major financial institutions?" Translation: Work at one of the big banks or an insurance company.

As I thought of a suitable response, one that the audience might understand, I chose to draw some thoughts from my previous article mentioned above. I also suggested that the impending regulatory changes of transparency and full disclosure would absolutely favor the independent, fee-based advisor, assuming that such an advisor had already fully embraced these basic concepts. If you have communicated to your clients how you are being paid; and if there are any conflicts of interest -- what they are; and what you can and cannot expect from your advisor relationship, then you are in good shape. If all of the basic concepts have been explained, then the independent advisor is able to focus on the real task, which is helping clients achieve and keep a sense of financial security. My closing remark was a piece of advice my father offered to me 50 years ago! "If you always tell the truth, you will never have to remember what you said!" With that, the seminar adjourned, and I considered my job complete. Silly me.

Immediately following, I was approached by numerous members of the audience asking all sorts of questions, especially about achieving and maintaining independence. I did my best to answer all of them.

Then something happened…

The following day, a major Canadian bank announced it was letting go of 7 percent of its brokers, including their administrative assistants, as part of a "restructuring designed to improve profitability in its overall wealth management business".

Now before I go any further, can you imagine what it feels like to be told that your position has been eliminated and that you are finished immediately? You are subsequently escorted out of the building and given an official dismissal letter. I can only imagine the distress of those people affected.

Now let's imagine how you as a client of one of those advisors might feel? What would you be thinking? Are you not a big enough account to be sufficiently profitable as a client?

In a separate conversation with one of my many well-placed contacts within the financial sector, it appears that part of the reasoning behind the specific dismissals may have been that the banks were simply looking for more profitability from its advisors.

So here's my point. As independent advisors at **PEAK Investment Services Inc.** *(PEAK Investments)*, we at **The Tyler Group** have no conflict of interest with respect to those financial solutions that we recommend to you, our clients. Our compensation is either from advisory fees, or occasionally in the case of certain other offerings, such as insurance, the compensation is clearly spelled out. We have no one at **PEAK Investments** or anywhere else demanding that we sell the "house brand". **PEAK Investments** has no house brand. What we do have is the independence to recommend the most suitable choices to our clients, based on the financial solutions we believe have the highest chance of achieving our clients' overall goals.

As I have said many times :

"It is better to own the bank than to lend them your money."

Be an owner, not a loaner. In fact, by virtue of our client's ownership of a number of Canadian investment funds, they do own shares of the banks. They are owners.

Now if you still feel that you are "richer than you think", then maybe none of this is resonating with you. If on the other hand this message makes sense to you and you value the independence that we offer, please share this article with your friends and family. In addition, if you would like to know more about how advisors are compensated, and why certain financial solutions are recommended, please watch for my next email. You will receive a copy of **The Cost and Value of Independent Financial Advice**.

As always, I value your feedback.

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