

The World's First Online
Investment, Finance, Business, and
Lifestyle Magazine

growFolio

Issue 3
March 2005
www.growfolio.com

Make Sense of
Investment Terms

Stock Market Simulators



A Taxing Investment

Managing your
investments come
tax time.

Contents

- 2 **From the Editor's Desk:**
Market Mass Hysteria, Apple's recent success, additions to our website
- 3 **This Just In**
Some of the important stuff that happened over the past month...
- 4 **Portfolios:**
Updated and ready for action
- 5 **A Taxing Investment**
Understanding the taxes that apply to your investments. Just in time for April 15!
- 7 **Beginning Investor: Investing Terms**
If you aren't quite sure what an equity security is, you'd better read this.
- 9 **Sim Investor**
Welcome to the world of stock market simulation!
- 10 **A Look at Fractional Jet Ownership**
Owning your own private jet may just be less expensive than you think.

Advertising: If you have an interest in advertising with growFolio, and reaching a broad range of well informed consumers, visit www.growfolio.com/advertise First month is free for new clients*

All readers are required to agree to our Terms and conditions. If you have not yet done so, please read them at www.growfolio.com. The use of corporate names in this magazine does not imply their endorsement of growFolio.

From the Editor's Desk:

Market Mass Hysteria | Apple does it again

The way investors act on a day to day basis never ceases to amaze me. In late February, a large foreign bank announced that they would be diversifying their currency holdings (buying more Euros, and less US Dollars) slightly. This dropped a bit off the dollar's value, and more significantly, dropped stock prices as trading opened on the following day. This isn't an isolated case of "market mass hysteria". It's quite incredible - any piece of news you can imagine will affect the stock market in some way. It doesn't have to be a big deal, nor does it have to be anything more than a rumor. Nonetheless, a whisper on Wall Street can cause billion dollar changes in collective market caps. It really leads me to believe that the people on Wall Street, as well as those who happen to take their advice, are wound a little bit too tight. Just watch - I dare you - and you'll see that anything.... Anything will affect the intraday price of any stock. That said, take it easy guys. You're just going to make yourselves crazy. The fact [as far as I'm concerned] remains that if you invest in a company that you strongly believe has market potential, it will succeed regardless of a shift in the trade winds.

“...a whisper on Wall Street can cause billion dollar changes in collective market caps”

My personal market forecast is in the portfolio section (page 4).

In the February issue we ran an article on Apple, with a look at some of their new products. At the time of our writing, the Mac Mini and iPod Shuffle had just been released, and had barely started shipping. Now they're going strong. In fact, Apple can't even keep them on the shelves. Both products have proved to be extremely popular, exceeding the expectations of many - and creating a bit of a backlog in Apple's distribution system (I

am going to have to wait a little while before the

iPod Shuffle I

ordered comes in..... blast!). Just when we thought Apple was on the top of its game, they just keep taking it up a notch.

Our website just recently got the addition of a news blog (slang term for a web log). This blog can be accessed at <http://www.growfolio.com/news/> and offers up to date information and commentary in between issues. As for readership, we crush January's numbers by a good bit. I really hope that we can make a new record for March. We need all the readers we can get - feel free to send a link to our site to anyone who may be interested.

As always, we want to know what you're interested in. If you have suggestions or comments about growFolio, please email them to suggestions@growfolio.com. We're always looking to make growFolio the best resource it can be. Thanks for stopping by this month. We hope to see you again soon.



Jonas Elmerraji
The Perpetual Bull

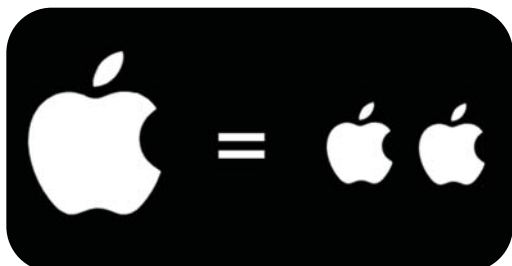


Photo by Myles Davidson

This Just In

Some of the important stuff that happened over the past month..

Apple Split



As a bit of a follow up to last month's article on Apple Computer, February 25, 2005 marked Apple's last day of trading before their 2 for 1 split. The split was less than a surprise as Apple lingered in the high \$80 range, an extremely high price for the technology sector. Splits are purely psychological - people would rather buy two shares of a \$40 stock than one of an \$80 stock. For many, stocks approaching the \$100 range are indicative of a peak. While this certainly isn't the case in a good company (one extremely glaring example of that is Berkshire Hathaway, whose class A shares were trading at \$90,000 as of this writing), a split such as this will most likely build consumer/investor interest in Apple.

Retail Mergers

Things are really getting interesting in the retail segment. Recently, Federated (the company that owns Macy's and other department stores) announced plans to buy May (the owner of Hechts, Marshall Fields, and a number of other retailers) for approximately \$11 bn. This news comes as Sears works out their own merger with Kmart, which will create the second largest retailer in the country. The interesting thing to note is that though some of these retailers may sell electronics, they are not specialty stores. Whether or not more competition for the likes of Best Buy will emerge with the recent popularity in mergers is anyone's guess. For the time being, however, they're doing quite well.

I Need a New Drug



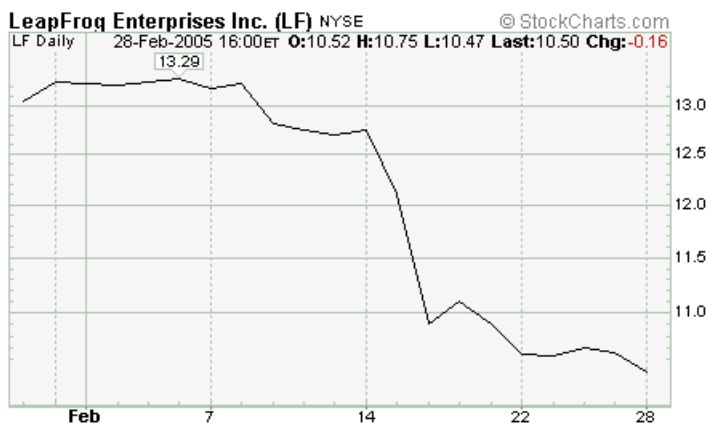
Drug companies are sweating now... some of the nation's top-selling medications been removed from public access due to their dangerous side-effects and complications. But that's not what the pharmaceuticals have to worry about. Now, the "drug defense" is taking effect as people lose faith in their medications. Recently, a boy on trial for murder blamed the crime on some meds he was on at the time. While this in and of itself shouldn't cause too much worry for the drug giants, the threat of litigation in relation to such crimes (regardless of their validity) should become a concern, as it has been for the cigarette companies and gun manufacturers.

Name	Symbol	EPS	P/E	Recent Price	Price at Call	Months on growFolio
eCost.com	ECST	\$-0.08	N/A	\$7.65	\$7.53	2
Lexar Media	LEXR	\$0.04	101.5	\$4.06	\$5.01	2
Bank of Am.	BAC	\$3.70	12.62	\$46.65	\$44.50	2
Best Buy	BBY	\$1.59	33.89	\$54.02	\$47.31	2
UnitedHealth	UNH	\$3.94	23.13	\$91.16	\$66.50	2
LeapFrog	LF	\$-0.14	N/A	\$10.50	\$10.90	1

I Pick You

You may have noticed that no picks were added to our portfolios for the month of February (besides the addition of LeapFrog). Basically, this is due to a combination of the generally down market right now and the other work we've been doing with growFolio this month. Plus, February only has 28 days, so give us a break! At any rate, while this month's continuance of the somewhat depressed economy we've seen offers a bargain investment opportunity (so to speak), it's probably not going to just flip right around come March 1. Because of this, we're not changing a thing this much. Hopefully we'll have that opportunity next month (most likely, at least).

You may have also noticed the fact that both eCost.com and LeapFrog have experienced negative EPS numbers since last month. Yeah, well, in all honesty, that's pretty much what was expected for each company. In the case of eCost.com, they're still a relatively new company with seasonal earnings, and an ever-expanding customer base. The fact that they're growing substantially each and every quarter is reason enough for celebration in my eyes. LeapFrog is in a similar situation. They have very seasonal profits, typically barely (if at all) in the black through Q2, with the majority of their revenue earned in Q4 (as well as their historical highs). So, neither company is in any trouble. We've just got to wait out the stagnancy we've seen over the past two months.



The majority of LeapFrog's revenues are expected in the second half of the year.
Chart courtesy of StockCharts.com



eCost.com has been growing steadily for quite some time. The holiday rush should prove to be an impetus for some price movement.
Chart courtesy of StockCharts.com

Disclosure: Please be aware that some or all of these securities may be held by growFolio staff in their personal equity accounts. While this disclosure is not legally required, we feel it best to inform our readers of ALL such information.

A Taxing Investment

Taxes are usually the last thing you think about when you consider your investments. Should they be? What's taxed and what's not? How much should I put into my retirement account? We shed some light on some of the most common tax questions.

April 15 - The most dreaded day of the year is right around the corner. Are you ready? Some of the most neglected (and misunderstood) tax issues are those related to your investments. If you invest with taxes in mind, you can avoid a nasty surprise when Uncle Sam comes to collect.

The tax advisors are chiming in left and right on this issue. They say that you should limit yourself - and your investments - in order to minimize your tax burden for the immediate future. Those in the high tax brackets should go mainly for retirement accounts (as in tax deferred investments) and tax free investments, and those in the lower brackets should feel free to invest as they see fit. I'm sorry, but I don't necessarily agree with their synopsis.

Dividends, interest, and short term capital gains from your investments are all taxable at your standard income tax rate. Long term capital gains (that is - those coming from investments that you have held for over a year) are taxable at a lower rate. It would make sense then, for someone in a higher bracket (and thus paying a larger percentage of his or her dollar to the government) to focus primarily on limiting these types of income, and for those in lower brackets to go crazy with them, since



If you plan ahead when investing, you can save yourself a lot of hassle around this time of year.

they're not losing as much money.

Tax deferred retirement accounts, such as your IRA, 401k, or other retirement account, allow you to contribute a specific amount of money each year to your retirement. This amount is deductible from your income. That's not to say that these retirement accounts are tax free - far from it. These accounts are tax deferred, which means that you do pay taxes, though not until you take the money out. This offers the advantage of reinvesting your yields before taxes, which if done well can end up making you more money, but the fact remains that when you do access those accounts, the going tax rate may be less favorable than it is today.

Tax free investments do exist - to some extent. Municipal bonds and certain money market accounts can be tax free, however, you should always make sure that you deeply understand the taxing situation on these instruments before you actually put your money into them. In some, federal taxes or state taxes (or in some cases local income taxes) may be waived, but one doesn't imply the other, and the last thing you want is the surprise that you do owe taxes on a supposedly tax free investment.

If your portfolio has taken a little drive over the past year, you may find some solace in the fact that you can write off some of your losses. Up to \$3,000 in fact. After three grand, you'll have to carry over your losses each year. This can result in a ton of paperwork, so make sure that the assessed tax difference will make up for the extra effort these filings would take.

Also make sure that you don't mix and match

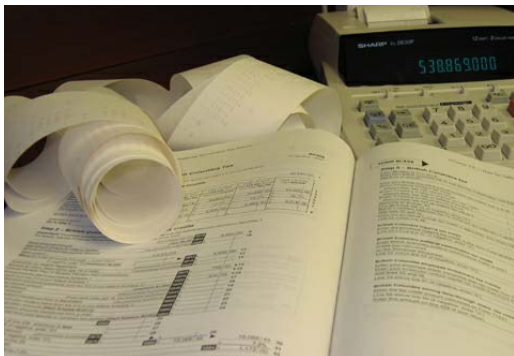


tax-beneficial instruments. You shouldn't put municipal bonds or tax free money market accounts in your IRA, for example. Since they're both tax free,

“ It just doesn't make much sense to say that you wont invest outside your retirement account, just because you don't want it to be taxed.”

you can end up losing out on the tax break the other provides. It's typically a better idea to use these instruments in conjunction with your regular assets. This is one of the points that I agree with the tax experts on. It just makes sense.

But I just don't agree with their investment strategy, as I mentioned before. It's all well and good to keep your taxes in mind when you're planning your investments out - and it's essential when planning for retirement - however, I just can't justify their methods. If you have had a good year financially, and find yourself in a higher tax bracket, chances are that you have a pretty nice retirement plan already. For someone making six figures, the ceiling on retirement contributions is just not enough money to be their primary focus of investment attention. If you know what you're doing, you will make



Looks familiar, doesn't it?

money. I would much rather make money that taxed at 99% than not make a cent. It just doesn't make much sense to say that you wont invest outside your retirement account, just because you don't want it to be taxed.

Of course, if you're in a lower tax bracket, the experts recommend that you go ahead and invest in

taxable securities, since your tax rate is less than, say, Bill Gates. I'm sorry, but this is ridiculous. It's pretty unnecessary for someone in a lower bracket to focus on taxable accounts alone. Actually, it's probably more important for you to pour money into your retirement accounts. With the battles going on in Washington over the "social security crisis" (which we'll touch upon next month), the best way to secure your future is to actively invest in it. If you're an active investor, splitting your investment allocated income fifty/fifty for your retirement and taxable investment accounts isn't out of line. If you don't invest very actively, and you don't think you'll need access to your retirement money, don't think twice about putting the majority of it in a tax deferred retirement account.

Essentially, my point is that your investment decisions shouldn't be held back in fear of your tax burden. If you can balance the two out, you might just find that it does make sense (and hopefully, you'll turn out more financially fit than you were before). A whole new tax year awaits, and we're ready for it.

Beginning Investor:



Investment Terms

Over the course of the past two months, readers have brought to my attention that there is a steep learning curve for investment terminology. That's why the focus of this month's Beginning Investor column will be investment terminology. The world of finance can be complex. This article doesn't intend to provide an all-encompassing set of definitions, but rather, as a general guide to help you understand the most frequently used financial terms. There's no way we could cover everything - and I'm sure that we won't - but this should clarify some things for those new to investing. This month, we'll be looking at stock-related words in particular.

Stock

Let's start with the absolute basics. The most common type of investment is in the form of stock. Stock is an equity security - that is, when you buy stock, you are purchasing a piece of that company. You are part owner, and therefore entitled to help select the people who run the company from day to day. Money is made from stocks either by dividends, or capital gains.

Annual Report / 10-K

The annual report can come in two forms, the glossy annual report, which looks pretty, and is relatively easy to read and comprehend, and the 10-K, which is an official SEC filing that is required of public companies. The 10-K is a legal document, and is therefore much more difficult to read, however, it can provide much more information.

Capital Gains

The sell price minus the purchase price of stocks are referred to as capital gains.

Dividend

A dividend is a per share payment that a company has the option to declare. Essentially, dividends are a way for a compa-

ny to share their profits with its owners, the shareholders. Public companies are not required to declare dividends.

EPS

The term EPS refers to a company's earnings per share for the fiscal year.

Equity

Equity is just a term to signify that a particular type of security grants you partial ownership of a company.

Liabilities

Liabilities are a company's debts of any kind.

Market Capitalization

The Market Capitalization, or Market Cap, is the total number of shares outstanding (held by investors) multiplied by the share price on any given day.

Mutual Fund

A Mutual Fund is an investment company whose sole business is to purchase stock in other companies, and turn a profit for their own customers. When you buy a share of a mutual fund, you're essentially buying into each and every company that that particular fund holds. Mutual funds can be a good investment for those who are new to investing.

Net Quick Assets

A company's Net Quick Assets, or NQA are the sum of a company's liabilities subtracted from the sum of a company's assets.

P/E

The P/E is a company's ratio of their share price to their earnings for a particular fiscal year. This can be used as a good indicator of a company's financial health and buy prospects. A good P/E value varies by industry.

Par Value

Par Value is an arbitrary figure determined by a company at the issuance of a particular type of stock (i.e. it varies from class to class). Essentially, par value carries no real significance.

Share Price

Share Price is the price at which one share of a company's stock is selling.

Short

A short is a method of making money even when a stock's price drops. The way a short works is that an individual will get shares of a stock on margin (loan of shares from stock broker). This person will then sell these shares, and wait until the price drops before repaying his broker. If then, you buy 100 shares of company x at \$10 per share, and sell them for that price, you will have \$1000. If the price of the stock drops to \$5, you will still have to pay your broker for those 100 shares, but the price will be only \$5. Thus you pay your broker \$500 for those shares, and pocket the difference.

Split

When a stock split is declared, a ratio is picked by the company. The company's total shares are multiplied by this ratio, while the share price is divided by this ratio. Thus a 2:1 split on your 20 shares of a \$10 stock would result in 40 shares of a \$5 stock.

Stock Classes

Companies can issue numerous classes of stock, each with its own voting rights, stock price, and par value. Typically, special classes are only available to certain individuals, while common stock is traded on public exchanges.

SEC

The SEC, or Securities and Exchange Commission, is a United States government agency that focuses on the regulation of public companies and the stock market. Companies are required to follow SEC direc-

tives.

Securities

The word security is just the technical term for any asset like a stock or bond. Use it frequently, as it will make people think you're really smart.

Well, that about does it. Now when you hear about the SEC cracking down on a company for not being accurate on their 10-K, or when someone talks about shorting an equity security with a horrible P/E, you know exactly what they're talking about.

If you're a beginning investor, who has a question to clarify or story to share, drop us a line at suggestions@growfolio.com. We're always looking for the best ways to help our readers with all aspects financial.

Sim Investor

The phenomenon of stock market simulations has offered everyone, young and old, poor and wealthy, to experience the excitement and complexities of investing. With simulations, you can test strategies, enjoy the dynamic of high risk investments without the risk, and, if you're under 18, try investing out before you're able to open an investment account of your own.

There are half a dozen stock market simulation sites scattered across the internet. Some are very realistic, some are somewhat inaccurate, some cost money, some are free. Many are designed with a focus on students, who are too young to open an investment account, or without the capital to do so. One of the most popular popular investment simulations is wallstreetpros.com. Not only does their system accurately reflect prices and market fluctuations, but the price is right - it's free.

The rules are simple. You are given \$100,000.00 in imaginary cash to invest as you see fit. Your goal is to have more money than the rest of the participants by game end. The winner at that time (the next one is April 30, 2005) will win \$100 in cold hard (real) cash. Not a bad deal. wallstreetpros.com is run by Impulse Communications, the company that runs some of the most popular entertainment websites on the internet, including bored.com. I recently had the opportunity to ask Impulse's Eric Borgos a few questions about wallstreetpros.com

gF : What prompted you guys to create an online stock market simulation?

EB : I am constantly creating new websites to add to my site at Bored.com, which offers fun stuff to do when you are bored. Bored.com gets 2 million visitors per month, so I try to keep it updated with fresh content. I recently created a site at <http://www.lifebets.com> which is like a stock exchange for predictions, so I thought a more traditional virtual stock market site (WallStreetPros.com) would go well with it.

gF : What groups are you targeting with your site?

EB : Anybody interested in the stock market, but especially teenagers. Since they usually do not have enough money to buy real stocks, this is a good way for them to practice and learn about the stock market. Also, most other stock market simulations require the users to be over 18, while my minimum age is 13.



www.wallstreetpros.com

gF : Do you plan to have more contests like your current one in the near future?

EB : Yes, there will always be a contest on WallStreetPros.com where users can win real money. As soon as the current contest ends, a new one will start.

gF : About how many participants do you have in the simulation?

EB : It has several thousand users right now.

gF : How long has wallstreetpros.com been around?

EB : It was officially launched on January 1st 2005. I bought the site a few months ago from a programmer who had it running using the domain name exchanges-im.net. He never had any users for it though. I gave it a catchy domain name (WallStreetPros.com), added a bunch of new features to it, created a contest for it, and added it to Bored.com.

gF : Are you an active investor yourself?

EB : No, but when I was a teenager I invested in penny stocks and also worked as an intern at stock brokerage on Wall Street. I love the gambling type action of the stock market, but I think there is much more money to be made on the Internet. Ever since I started my Internet business in 1995, it has been a non-stop roller coaster ride. Almost everyday I am starting some new business, buying a website, or selling one of my 10,000 domain names, so that is enough excitement for me.

wallstreetpros.com has a running list of the top users of their site. As of this writing, one individual was able to take their \$100,000, and bring it to \$7,062,635. Wow. The user names scream "kid", yet the results don't lie, the future of the finance world meets at wallstreetpros.com. As for me, well, I have been less fortunate in

Continued on page 12

A Look at Fractional Jet Ownership

We've all experienced it - the commercial flight. After a mad dash to make it to the airport on time, including the hours allotted for getting through security, where you'll have to take off your shoes, empty your pockets, and prove that your laptop is not a bomb, you sit and wait for a couple hours before they decide to start boarding, and give you the privilege of sitting in the cramped seat that you paid a couple hundred dollars for.

The mega-rich have always had the option of private aircraft available to them. If you're Donald Trump, you can think nothing of equipping yourself with a Boeing 727 that costs probably close to \$50 Million (not including the costs of pilots, flight attendants, support staff, insurance, fuel, maintenance, etc.). For others, however, the idea of a private jet

has been outside the realm of possibility. An exciting concept in private aviation, however, is allowing private jet travel to make more sense for those who have seriously considered it as a possibility.

Fractional jet ownership is a fairly new concept. It is based on the idea that an individual can purchase a fraction of a plane, and pay management and operation fees to a company that will be responsible for safety, pilot training, hiring of crew, and all those other things that you don't want (or wouldn't know how) to deal with. Fractional ownership can substantially cut the costs of owning your own aircraft.

Fractional jet ownership is provided by a number of companies, including Cessna's CitationShares, Bombardier's Flexjet, and NetJets,



the company that started the trend. As consumer interest in fractional jet ownership has increased, so has the competition between these companies. CitationShares and Flexjet are owned by aircraft manufacturers, their respective fleets composed mainly (if not entirely) of the planes they make. NetJets, on the other hand features a broader spectrum of aircraft, and is the industry leader. As such, that's who we'll be focusing on today.

It is true that the fractionals substantially cut the costs related to owning an aircraft. That's not to say that private jet ownership is for everyone, however. The primary target of the fractionals consists of those who have considered owning (or sharing) a jet, but found the arrangements too complicated or expensive to justify, as well as those who are used to first class air travel, but want to make a step up. The fractionals are also an attractive deal for mid-sized companies who need the convenience of a private aircraft without the premium price. According to NetJets's website, purchasing a 1/8 share in a Raytheon Hawker 400XP would set you back \$793,750 plus a \$10,582 monthly maintenance fee, and an hourly charge of \$1,501. That 1/8 share works out to about 100 occupied hours per year. Yeah, it's expensive, but when you consider the price of seven first class tickets from New York to Miami, it suddenly becomes more reasonable. In fact, as a little experiment, I attempted to get the price on such a flight on very short notice. NetJets claims that your plane will be waiting on the tarmac within 6-12 hours notice. With a commercial carrier, I was unable to find a next-day flight, I was unable to find first class seating, and on one airline, I was informed that a return flight wouldn't be available until a week after the date I requested. If short notice flights are commonplace in your life, NetJets offers the solution.

Let's say, however, that you aren't interested in a small aircraft like the 400XP. What if you want something that can fly from New York to London non-stop? Well, just step into one of NetJets's large cabin aircraft. If you are lucky enough to afford

these multi-million dollar jets, you will enjoy the highest degree of luxury. The Gulfstream 550, for example, is the latest and greatest in Gulfstream's line of long-haul private aircraft. Aboard, you will find a satellite telephone, video monitors, a DVD entertainment system, data ports, a fax machine, and whatever else you need to run your operations (or



The interior of the Gulfstream 550 is luxuriously appointed.
Photo courtesy of NetJets

enjoy some well-deserved down time) at 30,000 ft. Naturally, the Gulfstream 550 also offers a full service galley, as well as a flight attendant for you and 13 others.

The final frontier in fractional ownership is the Boeing Business Jet (BBJ). If you've ever flown on Boeing's popular line of 737 airliners, you know how big the BBJ is. That's because the BBJ is actually a gutted 737, which is then outfitted with the latest in in-flight luxury. In fact, the BBJ is even available with a boardroom, bedrooms, and a shower. Yeah..... a shower. Nothing says success like the ability to roll

out of bed, take a shower, eat a nice breakfast - all while you cut through the air at 528 mph. If the \$50,000,000.00 price tag (full price) is

a little disturbing, owning a fraction with NetJets can take a large chunk out of it.

Fractional shares start at 1/16 of a share, which can be as low as \$369,875 in a Hawker 400XP. That's 50 hours of flying time. For those who don't want the commitment (or the cost) of buying a fraction, NetJets has implemented a lower-cost solution that they call the Marquis Jet Card. The Marquis Jet Card starts at \$109,900 for 25 hours in a Cessna Citation V. With the Marquis Jet Card, required notice jumps up to 10 hours, which is still much better than anything the airlines can offer. The card offers the convenience of chartering an aircraft, with the peace of mind that you get from NetJets's safety standards. Other fractional carriers also have prepaid jet cards, so this is a [somewhat] affordable solution for those who don't want to deal with the monthly or upfront costs of ownership.

If you decide that fractional ownership is for you, be warned, you should thoroughly investigate the pilot training, safety procedures, aircraft, and management services that each company offers

before making a decision. The big three, NetJets, CitationShares, and Flexjet, offer excellence in each, but some newer fractional start-ups may not be up to snuff.

Remember that your security and safety is paramount, and if you feel that it's inadequate with a particular company, take your business elsewhere. If you're serious about making a fractional jet purchase, and live nearby to their operations, don't hesitate to ask for a tour of their aircraft and facilities, they should be more than happy to accommodate you. Many fractional operators hold regular events around the country in which prospective buyers can take a look around the aircraft and the service that they offer.

Fractional jet ownership offers the best of luxury, security, and functionality without the premium total ownership requires. If you've been considering buying or chartering private aircraft, fractional ownership just may be for you.



The ever impressive Gulfstream 550 jet.
Photo courtesy of NetJets

Sim Investor (continued from page 9)

my short fooling about on the wallstreetpros.com website. I'm down six grand. But I suppose that I could have expected that (at least I mentioned something to that effect about the market in February's From the Editor's Desk). At any rate, wallstreetpros.com allows for some high-risk fun in a no-risk environment. Try it out. You won't lose your shirt on this one.