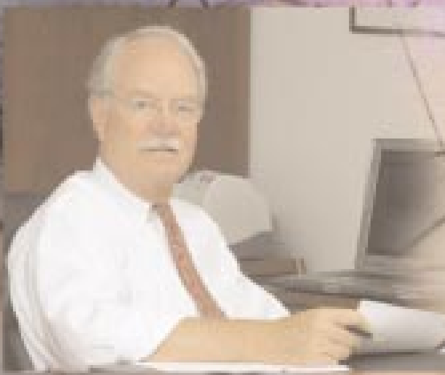

Soaring

The eagle's perspective on wealth management

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Lessons Learned: Prologue

I would like to focus this newsletter on subjects of particular interest to our clients, so please feel free to let me know what subjects you are interested in and I will address them in a future newsletter.

I think there are some important lessons to be learned from what's been happening at Winn Dixie Stores. For anyone unfamiliar with Winn Dixie Stores, they are a large, publicly-traded, supermarket chain with a substantial network of stores throughout much of the southeastern United States.

Winn Dixie is one of a few large corporations who make Jacksonville their corporate headquarters. It's been a major presence here for several generations. The founding family, the Davis family, has been a major benefactor to the community over the years and everyone associated with Winn Dixie has always been very proud of the firm. Not surprisingly there is a large base of retired Winn Dixie employees living in our area.

When I was conducting public investment seminars several years ago, I would occasionally meet attendees who were retired Winn Dixie employees. Invariably these retirees had a substantial portfolio consisting almost entirely of Winn Dixie stock. They loved the stock as they had loved their company and there was little I could do for them because they would never consider selling any of their Winn Dixie stock. No discussion about the benefits of portfolio diversification could dissuade them so we would always have a nice discussion and go our separate ways. Winn Dixie stock was easy to love, primarily because it paid a very generous dividend. And unlike most dividends which are paid quarterly, Winn Dixie paid a dividend every month.

Winn Dixie, however, ran into some difficulties when competition became very intense in their industry and over a period of a year or two, their stock price declined, they changed from monthly to quarterly dividend payouts, they cut the dividend, and finally they declared bankruptcy and ceased paying dividends at all.

Fortunately Winn Dixie has been reorganizing while in bankruptcy and expects to emerge in a few months. As part of the process, however, they have announced that they are canceling all their common stock and are issuing a new common stock which will initially be held only by their existing creditors, who now control the company.

As a result of this announcement, we've been seeing quite a few letters to the editor of our newspaper bemoaning the substantial loss of wealth and income suffered by the many former Winn Dixie shareholders in our area.

From this tragic story, we can see a number of important wealth management principals. In summary they are:

1. Diversification is a good thing (within certain limits).
2. Corporations are a poor object for love.
3. While dividends are an important contribution to the total return of a stock, they are not always a reliable source of income because they can be stopped or reduced at any time at the discretion of the company.

I plan to address each of these lessons in more detail in future newsletters.

Wishing everyone a healthy and enjoyable summer,

Jette

Jette

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"We ought not to look back unless it is to derive useful lessons from past errors, and for the purpose of profiting by dear-brought experience."

George Washington
(1732 - 1799)