LYON
CAPITAL MANAGEMENT
A Registered Investment Advisor

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The Great Money Managers **by Doug Lyon**

Ongoing professional development is important in any field. At Lyon Capital Management we are continually perfecting our craft. To that end I recently read an outstanding book called *Money Masters of Our Time* by John Train.

Mr. Train has written numerous books on investing and is a practicing investment professional in his own right. In *Money Masters of Our Time* Mr. Train profiles 18 of the most successful investment managers of the last 50 years. Most are still alive but many are partially or fully retired. The list includes some familiar names such as Warren Buffett, George Soros, Peter Lynch, and John Templeton. Most readers have likely heard these names. The list also includes names that most have likely never heard of such as Paul Cabot, Phillip Fisher, and Ralph Wanger. All the men profiled (interestingly no women are included) manage money or have managed money under circumstances where almost anyone could have gained access to their expertise either by buying shares in a mutual fund they managed or by hiring them to manage a private account.

Almost all the profiled investment professionals have produced outstanding investment results over long periods of time, easily outperforming standard benchmarks such as the S&P 500 and Dow Jones Industrial Average. Over my years in the investment profession I have found studying other successful investor's methods to be a fine tool for improving my own methods.

Some of the lessons learned or reaffirmed in this book are as follows:

- Value matters, that is be sensitive to the price paid for an investment.
- Thorough research is very important and once an investment is made, continue to study what you own.
- Understand the product a company sells and how they make money on the product.
- Don't be afraid to take profits
- Invest with conviction and have patience.
- Don't be afraid to admit a mistake
- Don't buy what everyone else is buying.
- Attempt to buy low and sell high.
- Market timing does NOT pay.
- High turnover, i.e. lots of trading, is generally harmful to investment results.
- If a company's prospects continue to improve, continue to hold the stock even though the stock has appreciated since initial purchase.

These principles of successful investing have stood the test of time and are likely valuable guidelines for future investing activities. We practice many, if not all, of the strategies above and have done so with success. $$

Bubble Trouble **by Kate Lyon**

The so-called "real estate bubble" is in the news everyday now. Turn on your TV or open just about any financial publication and there it is looming just like the "tech bubble" of 2000. But wait…no one called it a "tech bubble" until it burst. Remember? The internet was the "wave of the future." If you weren't heavily in internet funds, you were just lo-tech, not keeping up with the Joneses, and soon to be left behind in a cloud of investment dust. Then the bubble burst and the pundits all saw it for what it was….after the fact. Caution readers. Don't rely on the same gurus who gave you the tech bubble after the fact to accurately give you a real estate bubble before the fact. (If you are a "doubting Thomas" just rewind about 2 years ago when these same silly sages told you that mortgage rates had bottomed out and were on their way up).

This idea of a real estate bubble that will burst with a corresponding severe decline in the stock value of REITs (real estate investment trusts) is a creation designed to give brokers, analysts and financial journalists a way to cover their tracks lest they make the same mistakes all over again. In a recent letter to the editor of Barron's magazine, our own Doug Lyon mused the following:

I read Andrew Bary's Aug. 8 piece "The Other Real-Estate Bubble," comparing the REIT situation to the tech bubble of 1999-2000 with interest. His conclusions are incorrect because he is comparing apples to oranges. Real-estate investment trusts have real assets, generate revenues and profits, have customers, and pay cash dividends. Many companies in the tech bubble had few, if any, of these qualities. Also few, if any, Wall Street analysts or investment strategists are bullish on REITs. In fact, most have been skeptical of REITs since their inception. In contrast, at the top of the tech bubble, few of these investment experts were bearish on tech.

Continued on page 2

So are we predicting that REITs and real estate in general is invulnerable? No. We are saying we can't make this prediction. And, we wouldn't try to compare real estate to the tech stocks of the 90's. REITs, when carefully selected round out a well-diversified portfolio. We see them as an asset class that balances stocks, bonds, and cash. REITs can also serve as an inflation hedge. They are an integral part of the Lyon Capital Management success story. $$

Building Wealth by Kate Lyon

At Lyon Capital Management, LLC we have been making a living for ourselves by building wealth for our clients for 12 years. We are a registered investment advisor. We obtain discretionary authority from our clients to select individual stocks and bonds for their portfolios.

We spend our days looking for great stock ideas, reading about our world, following the companies we have purchased and providing investing advice and service to our customers.

We charge a fee that is a percent of the assets we manage so we have the same motivation to see our client's wealth grow as they do. If the client does well, we do well. If the client doesn't do well, we take a pay cut. We are on the same side of the fence as our clients.

Our track record would indicate we have been a success. We have increased assets under management every year. We have an extraordinarily strong investment track record. Our clients more than weathered the tech bubble, they made money during the 2000 – 2002 time frame. (To receive a data sheet documenting our record, please call us at 585-248-9821 or send us an email at doug@lyoncapital.com).

We make life easier for our customers. They focus on their business, their families, their hobbies, their retirement, and they leave the investing to us.

They realize that to do a good job as an investor takes time, experience, integrity, education and patience. Our clients are smart, savvy, exacting and demanding. That's why we give them a report for every equity security we purchase for them. While they have given us discretionary authority to manage their money they like to know what they own and why.

Building wealth is our work. Let us help you build your wealth. $$

What is your broker charging you?
by Kate Lyon

"The nature of brokers' compensation and the relationship with their employer can seriously diminish clients' chances of having efficient, well-performing portfolios" Edward P. Mahaffy in Barron's – August 22, 2005

If you can't quickly quantify the *total* amount your broker charges you, chances are you are being charged too much -- way too much. Ever ask yourself, "Why is it so hard to figure out what I'm, being charged?"

Some of the points made by Mr. Mahaffy in his very informative article include the following:

"Some brokers will sell anything to anybody before year-end to cross [a bonus] threshold."

"A brokers' sales manager…presents conflicts…[they] tend to reward the brokers that sell the products that fatten the firm's bottom line"

"[A] broker may suggest [a fee-based account] for a client whose trading activity is low. Such clients would probably find it more sensible to pay a commission each time they trade. Morgan Stanley recently agreed to pay $6.1 million in fines and restitution for allegedly overcharging for fee-based brokerage accounts."

"So-called separately managed accounts…can lead to unusually high fees…the broker charges a "wrap fee," with the broker's fee wrapped around the fee of the investment manager. And the broker's fee is …sometimes twice as much."

If you have a portfolio of stocks ask your broker:

- What is my commission rate?
- How much is my annual account fee?
- Do I pay a wrap fee? How much is it?
- If your broker or advisor acts as a MOM (manager of managers) do you know the fee each manager charges on top of your broker's fee?

If you own mutual funds ask yourself (or your broker) the following:

- Am I charged a sales fee for my funds (also known as "a load"). How much is it?
- Could I have gotten the same or better performance from a non-loaded fund?
- How much is the mutual fund charging me each year in operational fees?
- How much is the mutual fund charging me each year in 12-b1 (marketing) fees ?
- Do I pay capital gains taxes on my mutual fund because *other* investors in the fund are cashing out?

Mr. Mahaffy says, and we agree, "The better route is to pick a bona fide, fee-based or fee-only investment adviser...they are legally bound to disclose [fee] information as well as all sources of compensation." Lyon Capital Management is just such an advisor. $$

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This newsletter is dedicated to the memory of Dr. John Lyon... One important way success is measured is how many people a person impacts positively in their life. If this is true, then my dad was hugely successful. Kate and I will always be grateful for the unqualified and constant support he gave us for Lyon Capital Management. He was our first client and always our most enthusiastic supporter. My father led a full, long, successful life and he is sorely missed. Doug Lyon