

Meet a Davidson Companies Professional



William Dezellem, CFA
Senior Vice President,
Chief Investment Officer
Davidson Investment Advisors

- Joined Davidson Investment Advisors in January 1998 as Vice President, Senior Portfolio Manager. Was promoted in April 2000 to Senior Vice President, Chief Investment Officer.
- Besides overseeing DIA's portfolio managers and investment functions, Bill manages the firm's Small/Mid Cap Value Strategy.
- Before joining Davidson Companies, served as Vice President of Research and Senior Research Analyst for ICM Asset Management in Spokane.
- A native of Washington state, Bill holds bachelor's degrees in business administration/finance and business economics from Central Washington University. He also holds the Chartered Financial Analyst designation.

Bill, can you explain the work of Davidson Investment Advisors (DIA)?
Davidson Investment Advisors is the professional money management division of Davidson Companies. We have several investment strategies for clients to choose from, including: Large Cap Value, Large Cap Growth, Equity Income, Small/Mid Cap Value, Technology, Intermediate Government/Corporate Fixed Income, and Corporate Cash Management. Our clients pay us a fee based on asset levels to manage their individual accounts for them. In doing this, the DIA investment team analyzes the stocks and bonds of many businesses, which we then purchase in our clients' portfolios.

Tell us what your typical day is like.
Wow, if there were such a thing, it would make preparing for tomorrow a lot easier. However, as the Senior Portfolio Manager of the Small/Mid Cap Value Strategy, I will talk with management of companies that we own or are considering owning in the portfolio, and I will talk with their customers, suppliers or competitors, too. This is done both on the phone and in face-to-face visits. I also regularly evaluate unscheduled news that is released by

companies to ascertain the implications for the portfolio holdings. Secondly, as Chief Investment Officer, I discuss investment ideas with the five other Portfolio Managers and strive to provide leadership that will help the investment team make more money for our customers over the long-term.

Davidson Investment Advisors is growing. Why do you think investors are turning to this type of service? Why might investors consider using an individual money manager instead of a mutual fund?

It appears that many customers are concluding that the market tricked them during the 1990s into thinking it was easy to make money by investing in stocks. Now they are looking for dedicated professionals who are focused solely on the investment process to manage their portfolios for them. Tax planning is one reason many investors choose individually managed accounts instead of mutual funds. In addition, with the added scrutiny on corporate America, there is comfort when customers can see all the individual positions owned by the manager on their statement. Everything is out in the open with our process.

The market has been turbulent recently, to say the least. Tell us how that presents challenges for you.

Investing is more challenging when the general market direction is lower as it was (I'll use the past tense term optimistically) over the last two years. However, the biggest challenge is when stocks drop because of the herd mentality associated with the current level of fear. Recently, two companies I own dropped and did not immediately recover as a result of erroneous news reports. Clearly it is critical to understand the businesses well enough to be able to avoid getting sucked into inappropriately reacting to other investors' emotional swings ... especially in this environment.

What is the most rewarding aspect of your job?

Making money for people. It is really fun to help create flexibility in a customer's lifestyle. There is nothing more rewarding than helping an individual or business live the American dream of building and creating wealth.

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CONFIDENCE IN CRISIS



Investors today are faced with an investing stage crowded with discouraging, inept and unattractive actors. In this environment, it is difficult to attend the theater. The critics daily regale us with the attendant concerns of accounting irregularities, terrorism, misconduct in the ranks of corporate executives, international conflict, a slowly growing economy and the recurring hangover of techmania. The intermission can't come soon enough so we can sneak out the back door.

The psychology of investing causes extreme focus on the very recent past and scant memory of the history of the investing climate that confronted investors in earlier periods. Without minimizing the legitimate difficulties posed by today's events, the perspective of history should allow us to have "confidence in crisis" rather than a "crisis of confidence."

Unless you have no faith in the strength of America, its people, its institutions, its societal structure and its bounty of resources, you should conclude that in the next decade, you will create personal wealth by owning a piece of America's great companies.

As Nic Murray, a nationally known consultant to the investment community, has stated, "I don't know the direction the next few hundred points of the market will move, but I do know the direction of the next 10,000 points, and that is up!"

Investors' faith is currently being tested more formidably than in any period since the early 1970s. At that time we were facing the combined pressures of a long and socially painful war in southeast Asia, a true domestic crisis of government during the end stages of the Nixon administration, an energy crisis as OPEC emerged as a formidable cartel, rampant inflation and two years of dismal, at best, market performance.

And yet from the darkness of that long night 30 years ago, we have emerged bigger, stronger and better. Not only have we enjoyed increasing prosperity, but we also have made unbelievable strides in medicine, social diversity, international relations and the creation of more opportunities for more people than possibly could have been imagined. Not coincidentally, stocks in American companies have marched ahead by over 10% a year. To be sure, the gains were not smooth, but the result was more than a tenfold increase.



During these last three decades of market growth, we have faced periods of economic stagflation and armed conflict in the Caribbean, central Europe and the Middle East.

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CONFIDENCE IN CRISIS

International terrorism has plagued the United Kingdom, Europe, Asia and the Middle East. New epidemics of frightening proportions such as AIDS emerged. Styles of dress reaching new lows of fashion sense have drifted in and out, and body piercing has become mainstream.

We have seen multiple crises and scandals in government, the collapse of the USSR, a Savings and Loan crisis and frightening dislocations in the banking system. And yet who would have wanted to miss the last thirty years? Who would not have wanted to share in the growth of our investment markets?

Frankly, now is not the time for timidity. It is not the time to be frozen into inaction.

Transparency in accounting will improve. Technological innovations will continue. Medicine will advance. Scandals will continue as they always have. But we also believe unequivocally that we will experience great economic success over the next decade.

Now is not the time for reckless abandon. There has never been a time for financial imprudence. But there also is no bad time for a good investment. Intelligent diversification and ownership of companies with product leadership, sound financial condition and positive cash flow will yield great rewards.

Nearly a century ago, my great-grandfather commuted two hours to work in the small town of Great Falls, Montana. Today my commute is a matter of minutes, yet the distance remains the same as it was. He could not have imagined the horrors of the 21st century or the bounty we enjoy today. We must continue to have confidence in crisis. It is only our individual and collective confidence that will allow us to fully participate in the growth of America, the world and its markets.



INVESTING FOR PHILANTHROPY

"Donor-advised funds are one of the fastest-growing trends in philanthropy in recent years. From 1995 to 1999, the assets of donor-advised funds grew by 231 percent."

— *Chronicle of Philanthropy*

America is a country with a huge heart. The tradition of charitable support by our citizens is unmatched in the world. Donations to worthy charitable groups occur daily. They can be in any form, from dollars going to bake sales and bell-ringing elves to gifts to United Way funds and one-time large contributions to a favorite cause, charity or foundation.

One of the most significant developments in giving has come about through "donor-advised funds." A donor-advised fund is a charitable asset account created by an individual or a family. Contributions typically are made with cash or appreciated securities, although funding sources may occasionally be personal or real property. After contributions are made, the donor typically has the opportunity to choose from various diversified and professionally managed investment accounts.

The contribution is immediately tax-deductible as defined by the tax codes. In general, deductions are allowed of up to 30 percent to 50 percent of adjusted gross income (Your professional tax advisor should be consulted as to the tax treatment and what contributions are appropriate to your circumstances).

Although the contributions result in an immediate tax benefit, the donor need not make charitable disbursements immediately. Funds can be invested to grow over time, which may allow greater gifts in the future. Many donor-advised funds require, by choice, disbursements of 5 percent of the principal amount annually.

Gifts from the donor-advised funds may be made at any time to a qualified 501(c)(3) organization. The important point is that the donor is allowed to select both the gift recipient and the timing of any gift. Indeed, family traditions of charitable giving can extend several generations through the appointment of successors to your fund.

A donor-advised fund offers individuals and families a flexible vehicle for:

- Philanthropic goals
- Estate planning
- Tax planning

Assets donated to the fund are removed from the donor's estate. You may donate appreciated securities to the fund, thus avoiding capital gains taxes that would have been incurred when the securities were sold. Although these tax and estate planning benefits are a motivating force, the true benefits are the charitable intent and control of the distributions to your selected worthy causes.

Donations can be made to a donor-advised fund for as little as \$10,000 initially. You receive many of the same benefits as a private foundation but without the expense, reporting and extensive regulatory requirements.

If philanthropic gifting is one of your goals, talk to your financial consultant or a trust officer of Davidson Trust Co. about the creation of a donor-advised fund.