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Growth Strategies Who wants to be a millionaire?

Investment strategies for the not-so-average Joe

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THE JOURNAL RECORD

If by age 30 a person were to put 10 percent of their monthly income into savings, by age 65 that person would be a millionaire. However, with every five years that pass, that person would have to double the dollar amount each month to reap the same gain.

According to John Shao, chief investment strategist for John Shao Portfolio Management, the key to investing is starting early.

"People who are 65 and older are financially insecure, in general," Shao said. "They have to rely on the government for their income, their Social Security."

Many people, after raising children and sending them to college, find themselves at 45 or 50 years old, just beginning to prepare for retirement, and that's too late, he said. And at 65, when people really begin to worry, there's no way to recover those years, which is why he stresses to start early. While it can be difficult to pass on the big-screen televisions, PS2s, flat-panel computer screens and the like, Shao said it takes discipline to prepare for those golden years. And this may be difficult for the up-and-coming generation often dubbed the "throw-away generation."

Once a person starts saving, putting money in the bank or a CD, he said, will not benefit anyone in terms of reward. The interest in CDs is just enough to cover inflation.

The person needs to invest wisely, which means doing their homework to find a good financial adviser.

There are so many choices with advisers, he said, which may make it difficult to choose. "The best way to find a good adviser is to ask people you trust, like your CPA, attorney, family or friends," Shao said. "It's more important to ask for names of advisers than to ask for names of stocks to buy."

This, he said, is because – as in any profession – there are those who

will work for you and those who will work for themselves. For instance, he said, it is easier to set up a financial investment firm than it is to open a barber shop.

To become a financial adviser, there are fewer regulations and requirements than there are with opening a barber shop.

"All you have to do is pass your examinations, rent space and have your cards printed," he said. "You don't have to go to school."

Shao, however, is not one of those advisers.

Shao, who grew up in China, holds a PhD in finance and a master's degree in statistics, an MBA in international business and his bachelor's degree is in electrical engineering. He relocated to Dallas in 1985 and finished his education in 1991. Since then, he has been teaching finance at Oklahoma City University, and he has been managing investments since 1992.

His fee-based firm provides investment consulting services and portfolio management for investors. Unlike the bond broker, who helps a company or local government issue bonds by identifying investors, Shao's firm works strictly for the investors.

His Oklahoma City-based firm recently received recognition from two companies for its accomplishments. Money Manager Review, a San Francisco-based company that analyzes the performance of private money managers, listed Shao's firm third among its survey of U.S. equity multi-cap growth managers for 10-year annualized returns and 13th among managers for one-year annualized returns as of Dec. 31, 2003.

And Effron-PSN ranked the firm among the top 10 All Cap Growth investment managers, also known as "Top Guns," which marks the second quarter Effron-PSN has recognized the firm. Shao's firm outperformed the Russell 3000 Growth index, as well as the S&P 500 index for the one year, three years and five years ending Dec. 31, 2003.

While the average Joe may not be able to afford Shao – he requires a

minimum investment of \$250,000 – he designs a portfolio to fit each client's needs.

And, similar to a medical doctor, Shao sees each client as an individual with individual circumstances and individual needs.

"I will look at every aspect of his situation and then give him the best advice," Shao said of his bedside manner. "I customize the investment strategies."

Shao's firm is not among the average. He's got an edge. And while he's not willing to share his secret for success, he admits that it's all in the "formula," also known as the Shao T-Ratio, a methodology he developed for selecting individual securities.

The Shao T-Ratio, which he massaged for nearly seven years, assists him in estimating whether a particular stock is overvalued or undervalued, relative to other stocks and bonds. It also serves as the basis for his buying and selling decisions.

"It's based on the fundamentals of the company – their earnings, their growth rate, their risk levels – that all relate to the ability for the company to generate more profit in the future," Shao said.

This year, for instance, Shao said he would encourage investors to look into stocks vs. bonds.

"A few years ago, bonds were better," he said. "But last year bonds were bad and stocks were great. This year, I think stocks will still do better than bonds, but not as good as last year."

He also said some of the new technologies are very speculative because so much of their work is still in the research phase.

However, home building is booming these days.

"My most successful investment sector is home building," he said. "Everywhere in the country, people are buying more homes. So home builders have been very busy making tons of money. And we got into this home building industry early – about three years ago."



IN HIS OFFICE: John Shao.

Photo by Mark Heacock

The key about investing, he said, is not what has happened in the past, but looking beyond today to see what industry might do well in the next few years.

And this is what he teaches his students at OCU.

Shao asks his students on the first day of each semester why they are taking this class, Investment Management. Each year, the reply is the same – students say they want to make a lot of money in the future.

"That's fine, and that's what you're supposed to do over the long term, but there's not much a professor can teach you about making money," Shao tells them.

"I tell them the most important thing I can teach them today is how to avoid losing money."

He said before people think about making money, they need to think about how to avoid the pitfalls that are in place that could cause them to lose money.

He teaches the students techniques in how to choose stocks and bonds. But he also teaches them about the trade-off in investing – always consider both the potential return and the potential risk.

"Always keep those two things in mind," he said. "It will be a lot easier for your investment decisions."

Shao started his firm with one client's \$300,000. Today his firm handles more than \$24 million for 55 clients.

And he still has that first client.