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The Value of a Good Financial Coach

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▶▶▶ The Myth of the Coffee Can By Pete Bush, CFP®

Let's say you were remodeling an old home you had purchased and you found \$182,000 in cash minted in the 1920's stashed in a couple of metal boxes hanging by a wire from the bottom of the bathroom mirror that had apparently been there since the Great Depression. By most people's standards today, you would still consider that quite a jackpot and the stuff of lore. Well, in a "truth is stranger than fiction" kind of story, according to a report by the Associated Press, that actually happened to a woman named Amanda Reece in Cleveland, Ohio in 2006.

The story goes that a contractor named Bob Kitts found the money in a wall of an 83-year-old home he was renovating for Ms. Reece. He decided he was owed part of it for making the discovery despite the fact that he did not own the home. Being perfectly human, the two could not decide how to quietly split the loot and the case ended up in court. That drew the attention of twenty-one heirs of Patrick Dunne, the wealthy businessman from the Depression era who had apparently hidden the money there in the late 1920's in envelopes bearing his name. Again, being perfectly human, the heirs obviously wanted their share.

Of course, you can imagine how much of the \$182,000 remains today? You guessed it—Zippo! Spent partly on a lavish Hawaiian vacation, supposedly partly stolen and then finally dispersed by the court, it is pretty much all gone now. Ahhhh, the sweet sound of human behavior!

There are, pardon the pun, a treasure trove of story lines to follow in this tale.

It could have been looked at as a modern day treasure discovery or a tale of great fortune for Reece and Kitts, if you choose to focus on those who stumbled upon it.

Since we now know the outcome, it could be studied as a another sad case of the "lotto effect" or "sudden money syndrome", where people actually end up worse off than they were before or even

in bankruptcy, like Reece apparently went through after the debacle.

It could have been viewed as a find of historical significance, since there are surely not many 1920's era bills still circulating among collectors in such pristine condition.

My suspicious and inquiring mind wonders if there is even an interesting story behind where the money came from, what it was paid to Dunne for and why it was hidden in the first place. Call it a modern day mystery case for your favorite TV detective.

Yes, Virginia, there are multiple interesting angles to explore in this unfortunate tale.

But through my lens as a financial advisor, I really think what we have here is a story of significance for all of us. What we have here is a real life documentary of human behavior and, more specifically, investor behavior played out over many years. What we surely and undeniably have is perhaps the best long term field study of the "coffee can" effect we have ever seen.

For starters, let's focus on Patrick Dunne, the fellow that put the money there in the first place. At the time he made the decision to stash this money in the wall, banks were collapsing all around him, brokerage firms were going out of business, joblessness was about to reach all time highs and the stock market crashed in what we know now as The Great Depression. Sound vaguely familiar? Surely it must have seemed like Armageddon and Dunne probably felt like he was better off with the bills "safely" tucked away than to be lost in the hands of a bank or, heaven forbid, in a portfolio of common stocks. At least it would be there if he ever needed it. At least he could never lose the money. (Ironically, despite his best efforts, I think we can make a solid case for the fact that Dunne never did need it after all and that he did, in fact, lose the money, however literally.)

With all that has gone on (and is still going on!) financially and economically, I think there are more than a few people

on the planet who (like Dunne must have been years ago) are thinking some version of the following statement: *"I'd be better off putting my money in a coffee can and burying it in my back yard!"*

To be fair though, let's really consider what kind of money Dunne stashed in those envelopes. From day one, it has been and remained through the years 182,000 units of United States currency. In the late 1920's, it surely must have seemed like all the money in the world, given what the cost of living and tax rates were at that time. In fact, even at a 3 percent inflation rate, that would be the equivalent of stashing \$2,116,216 in your wall today. In other words, the money he put in the wall needed to grow to well over \$2 million to maintain its relative purchasing power from the time he put it in there until today. Except that it couldn't and it didn't.

So while the units of currency were preserved for 83 years, the value of those units slowly eroded over time due to the insidious, invisible tax we call inflation. To put it another way, those dollars lost over 91 percent of their purchasing power over time. Yogi Berra once whimsically observed about the cost of living that "a nickel ain't worth a dime anymore." For Dunne's family, "a dollar ain't worth a dime anymore." It's worth about 9 cents. Since all money means to us is in terms of what it can buy, Dunne did, in fact, lose money. Not units of currency mind you, because of course, they survived. But he did lose money, just like we would over time if we retreated to the coffee can for a long period of time.

Possibly the only thing more perverse than leaving a pile of cash in a wall to literally rot away is considering what Dunne's heirs might have been laying claim to had he put it in a trust that couldn't be touched for 83 years. He would have invested at perhaps the mother of all buying opportunities (the Dow was around 100 then) and even if he netted an 8 percent compounded return over that time after tax, the trust would now be worth over \$108 million. I bet he would have more than 21 heirs come out of the woodwork for that sum! No matter how you slice it, it ended up being only a fraction of what it could have or should have been worth.

Between the 1920's and now, there have surely been many opportunities to think that the wall or coffee can is the

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Fear is one of the most powerful emotions we feel as human beings and it has some people thinking about and acting on some pretty irrational impulses. Don't be one of them.

(Coffee Can continued from page 12)

safest place to put money. And for brief periods of time, that argument would actually hold up. But for the long term accumulator of capital, who is saving for a 30 and possibly 40 year retirement, it would be a loser's game.

When I read stories like this one and similar ones of farmers burying PVC buckets of cash during this most recent financial crisis, it helps me to remember that fear, panic, and irrational behavior are at their greatest at or near market bottoms. And if you are planning for a bigger and better future, fear is a terrible guide and panic is perhaps your worst enemy.

Ponder for a minute all of the terrible things spooking investors since 1929 – prolonged wars, runaway inflation, a presidential assassination, the 9/11 atrocities, and on and on And yet, the market, even with its recent pullback, sits about 120 times its value in 1929.

I'd encourage you to share this story with everyone you know since this is on so many people's minds right now. If it helps one person maintain their perspective, then you will have done them a good deed. Investing is so often counterintuitive to what we are feeling and this time is no different.

Fear is one of the most powerful emotions we feel as human beings and it has some people thinking about and acting on some pretty irrational impulses. Don't be one of them. The predominant factor in the success of your investment program is surely behavioral, and investors often behave badly. Don't be one of them. The "safety" of the coffee can is a myth. ❖



Editor's Note: Pete Bush has spent the past 19 years as a financial advisor by helping families make smart decisions with their money and, sometimes more importantly, by helping them avoid making poor decisions with their money. He can be reached by phone at 225. 612.3820 or email pbush@horizonfg.com.

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