

**ELF CAPITAL MANAGEMENT, LLC**  
(*ENDOWMENT LIKE FUND MANAGEMENT*)

January 6, 2006

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## **Preparing to Plan: The Elephant in the Living Room**

Anyone will tell you that estate planning, succession planning and retirement planning are important elements for protecting, growing and preserving family wealth. Yet, many professionals in law, financial planning, accounting, business consulting and the like, can tell countless tales of people who avoid digging in and doing these tasks well. Not creating and working such plans is dangerous business. Still we all know people who, though otherwise responsible, never get around to doing it. Perhaps you are one of those people. Have you ever wondered why?

A major reason for such lapses is the simple fact that many of these issues are emotionally laden. They are fraught with potentially unpleasant pitfalls. Like the elephant in the living room we'd rather not deal with them. We pretend they aren't there. We walk around them, avoid them, and hope that somehow they'll just go away on their own. They seldom do. Just like an elephant in the living room, the longer they are there the more damage they'll do.

What causes prudent, sensible people to tolerate such risks? Usually their reticence stems from the fact that they don't have confidence that, if they put their delicate issues on the table, they'll be able to successfully resolve them...

As readers of my newsletters well know, wealth management is the ultimate goal of all that we do at ELF Capital Management. Yes, we promote our services; yet, you will find that we always seek to present thought provoking topics that are relevant to our wide audience.

This month's newsletter, courtesy of Dr. Dan Elash, will discuss one of the most significant obstacles in undertaking to do effective planning. In fact, it may very well explain why some people choose to abandon the decision to plan for the future altogether. Although, those that do, and do it well, can often see immediate measurable results.

Speaking of immediate measurable results, our year end statements are in the mail to our investment management clients and our results, for what many consider has been a so-so year, are definitely worth bragging about! Be sure to look over the ELF's performance section of this month's letter to see why.

## **The Elephant in the Living Room (continued)**

We left off discussing how "the elephant in the living room" often keeps, even responsible people, from engaging in effective planning. And, introduced the concept that not creating and working estate, succession or retirement plans is dangerous business. Now...

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What causes prudent, sensible people to tolerate such risks? Usually their reticence stems from the fact that they don't have confidence that, if they put their delicate issues on the table, they'll be able to successfully resolve them. They fear that once they open that can of worms, their problems will actually get worse. Perhaps it's your sister's idiot son who feels that he should be at least a vice president in your company. Perhaps it is your daughter's husband who can't wait to get his hands on your money. It may be that you don't trust your children to handle the wealth you've spent a lifetime accumulating. Sometimes, it involves dealing with one or more children you don't like or respect. Perhaps you simply don't know what you'll do with yourself if you retire. The list seems endless, but whatever your reasons, they can grow to enormous proportions if they go unaddressed over time. Anxiety, or a sense of dread, accompanies even fleeting ideas about addressing these issues, and so, we go on pretending we'll deal with them later.

In other areas of your life, you're a problem solver. Indeed, you've resolved the problems that you know how to address. What remains are the one's that are beyond your current abilities. For many people, these deep emotional questions are just too painful to embrace. So they drift along as time passes and the emotional entanglements become evermore complex.

Let's use one more analogy to move us along. Finding the answer to a difficult problem is often likened to trying to find a needle in a haystack. The very image conjures up feelings of frustration. But what would happen if you searched with a powerful magnet? A once overwhelming task would become manageable. Unresolved issues, even emotional ones, can often be solved with new skills or new resources. Success requires you to get the right tools and tackle the task in a thoughtful, considered manner.

There is a family we've worked with that can serve as a useful example. Dad worked with a lawyer and created a trust about 10 years before his death. His concern was to minimize the tax liabilities his family might face upon his death. During the development of his estate plan, he didn't talk with anyone in the family, not his wife (he handled all of their business affairs), nor his children. Over the ensuing years the business grew and some children played different roles in the business, some did not. As the business became more profitable each child developed his or her own expectations about his or her inheritance and how the pie should be divided. At the time of his death only one child was involved in the business and he had worked with his dad throughout his career. Upon dad's death, his wife and one child who had never been in the business became trustees. Mom had no idea how to handle her role. This son, who was a trustee but had no stock in the business, became angry and resentful when the business started paying dividends to mom and the other stockholders but he got nothing. Siblings fought over what the son in the business took in salary, how the business should be run, or should it be liquidated so that no one would get dividends. Family members played multiple roles as trustees, stockholders, board members and operators. Often personal responsibilities clashed with personal agendas depending on which hat a person was wearing. Anger, resentment and frustration filled the interactions of the family, the family that mom wanted to turn to for love and support as she tried to carry on without her husband. On the other hand they had the minimal estate tax burden that dad's estate planning professional had arranged for them.

The point of this example is that there were any numbers of times over the ten years when dad, or both parents, could have addressed and managed the expectations of the various

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children and avoided jarring surprises at the reading of the will. I'm not implying that everyone would have been happy or that it would have been easy, but it would have created a much better outcome for the grieving widow and her family.

Your estate is a large part of your legacy. Take the time to do the sort of due diligence it takes to create the best circumstances for that legacy to be as positive as probable. Ensure that you make protecting your family's intellectual and human wealth as important as protecting its financial wealth. Prudent families are turning to family coaches to help them create comprehensive plans for managing the complex and emotionally charged issues that come with the transfer of wealth and responsibility across generations. The time to start is now. People must be prepared with the knowledge, skills, and personal wherewithal to handle the burden of wealth. Starting early allows you to manage expectations before they spiral out of control. Starting early allows you to guide and develop the skills of the family for working through disappointments, challenges, and opportunities. The period when people are emotionally distraught over the death of a loved one is not the time to ask them to learn these skills on the fly.

### **Concluding Thoughts**

Family councils, one-on-one meetings, and long range developmental plans are important vehicles for ensuring that those left behind have the abilities to use what they are given in the best interest of themselves, individually, and for the well-being of the family as a whole. Gather the resources you feel that you need to step up to the task. Develop your own skill set for addressing these difficult issues. Chase the elephant from your living room. One thing is certain, the longer the elephant is there, the more mess there will be that has to be cleaned up.

### **ELF Capital Management Investment Performance Update**

As I reflected in last month's newsletter, the resilience of the US economy in the face of substantially higher oil prices, fed tightening and hurricanes has been amazing. For that matter, the world economy has been resilient against higher oil prices as well. Globally, solid economic growth is expected to continue through 2006 and the Far East is expected to expand more robustly than its global peers. Happy New Year!

For the month ended December 31, 2005, our one-month performance is up 2.26%, our three-month return is up 4.81% and our one-year return is up 8.21%. For more details, please see our web site. So, how does this performance stack up?

Taking a look at the following chart from the January 3, 2006 issue of the Wall Street Journal: What's Hot . . . and Not

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<b>What's Hot - and Not</b>		A look at how different investments did last year.	
<span style="color: blue;">■</span> STOCKS <span style="color: gold;">■</span> BONDS <span style="color: red;">■</span> CURRENCIES/COMMODITIES			
INVESTMENT	PERFORMANCE		
	2005 Change		4th Qtr Change
Crude oil	<span style="color: red;">■</span> 40.5		-7.9%
Emerging-markets stocks	<span style="color: blue;">■</span> 30.3		6.8
European stocks	<span style="color: blue;">■</span> 23.5		4.2
Gold	<span style="color: red;">■</span> 18.2		10.3
Commodity futures	<span style="color: red;">■</span> 17.5		-4.0
REIT stocks	<span style="color: blue;">■</span> 11.9		1.7
Emerging-markets bonds	<span style="color: gold;">■</span> 11.9		2.1
Global stocks	<span style="color: blue;">■</span> 9.4		3.2
U.S. dollar, trade weighted	<span style="color: red;">■</span> 4.7		0.9
Russell 2000 (small stocks)	<span style="color: blue;">■</span> 3.3		0.8
S&P 500-stock index	<span style="color: blue;">■</span> 3.0		1.6
U.S. Treasurys	<span style="color: gold;">■</span> 2.9		0.7
U.S. corporate junk bonds	<span style="color: gold;">■</span> 2.8		0.7
U.S. investment-grade bonds	<span style="color: gold;">■</span> 2.0		0.5
Nasdaq Composite Index	<span style="color: blue;">■</span> 1.4		2.5
Dow Jones Industrial Average	-0.6%		1.4

Notes on data: European stocks: Dow Jones Stoxx Index; emerging-markets-stocks: MSCI price index for free markets; corporate-bond prices: Merrill Lynch Global Bond Indexes; U.S. dollar and U.S. Treasurys: J.P. Morgan; REIT stocks: Dow Jones Equity REIT Total Return Index; emerging-markets bonds: J.P. Morgan EMBI-plus price index, in U.S.-dollar terms; commodity futures: Dow Jones-AIG Commodity Index; global stocks: Dow Jones World Stock Index  
 Sources: WSJ Market Data Group; Dow Jones Indexes; Reuters; Merrill Lynch

For 2005, we were HOT! When you factor in risk taken, we were RED HOT!

For disclosure purposes, past performance is not necessarily indicative of future results and ELF Capital Management LLC (ELF), formerly Hoffman White & Kaelber Financial Services LLC, cannot guarantee the success of its services. There is a chance that investments managed by ELF may lose a substantial amount of their initial value.

ELF is an independent discretionary investment management firm established in February 2003. ELF manages a strategic allocation of primarily exchange-traded index funds (ETFs), and may invest in other carefully selected securities. ELF may also employ hedging techniques, through the use of short positions and options. ELF manages individual portfolio accounts for both individual and business clients.

The ELF ETF Strategy returns presented herein represents a composite of actual results from all client portfolios managed by ELF. Currently, it is the only composite presented by ELF and separate client account portfolio positions are substantially similar, except as may be modified for retirement plan accounts and accounts with net equity of \$60,000 or less. There is no minimum account size for inclusion into ELF's ETF Strategy composite and accounts with net equity of \$60,000 or less have a tendency to downwardly skew the combined results.

The performance data presented herein includes the reinvestment of dividends and capital gains; as well, ELF's ETF Strategy composite returns are presented after deducting actual management fees, transaction costs or other expenses, if any. ELF charges an annual investment management fee as follows: 1.25% on the first \$250,000; 1.00% on the next \$750,000; 0.95% on the next \$4,000,000; and, 0.75% thereafter.

Broad market index information provided is solely for the purpose of comparison. This index data was obtained from third party sources believed reliable; however, ELF does not guaranty its accuracy. An investment account managed by ELF should not be construed as an investment in an index or in a program that seeks to replicate any index. In most cases, investors choose a market "index" having comparable characteristics to their portfolio as a benchmark. An ETF is a security that tracks an index benchmark or components thereof. As ELF actively manages a strategic allocation of primarily ETFs, selecting a comparable benchmark poses significant challenges. Over time, the broad market indices provided above may exhibit more, similar or less variability of returns and risk than ELF's strategic allocation. As well, the broad market index information provided above reflects gross returns and have not been reduced by any estimated fees or expenses that a person might incur in trying to replicate an index.