

## July 2007 *MoneyMinute* – The New Forever Stamp – Is It a Good Investment?

By Rich Chambers, CFP®



Definitely not, but *why* not makes a good investment discussion.

When we look for a good investment, important qualities to measure are returns, risk, tax efficiency, liquidity, and correlation.

### Good Returns?

Forever stamps are good for one ounce of first-class postage from now on. That tells us that the return is related to increases in postal rates. According to the recent Postal Accountability and Enhancement Act, postage increases must stay below the rate of inflation. So right away we know returns are poor because even an extremely low risk money market fund or CD can keep up with and usually beat inflation. By the way, forever really means until 2099 for this stamp (close enough to forever). **Returns are poor.**

### Low Risk?

First, what is risk? For investing, risk is not achieving the desired return or even worse having a negative return. Risk is often measured by the volatility (how far does the actual return stray from the expected return). Again let's compare the stamp to a money market fund. A really great thing about a money market fund is that you can't lose money (mostly true). Can you lose money on the Forever stamp? Yes, but it requires deflation, i.e., prices going down. This seems really unlikely so we'll just say the stamp is very low risk. **Risk is low.**

### Tax-Efficient?

The stamp really shines here since increases in value are likely never taxed. This happens because you buy the stamp for 41¢ today and in two years perhaps it can be used for 43¢ worth of postage. You have a profit of 2¢ and pay no tax on the profit. It's really hard to beat tax-free, which is why we like Roth IRAs so much. **Very tax-efficient.**

### Liquidity

Liquidity is how fast you can get all the cash back from your investment. Mutual funds are very liquid because you can sell today and spend the cash from the sale tomorrow. Limited partnerships are very illiquid because it can take years (if ever) to get back the original investment. Some small company stocks are not very liquid because when you try to sell, the price drops. The stamp is not liquid because I can't think of a practical way for them to be sold. Why would anyone buy them from you when they can go to the post office and buy them? After all, yours could be counterfeit. The only way to sell yours is at a discount. **Not liquid.**

### Correlation

We search high and low for investments with good returns that we can add to our mix that are non-correlated with the investments already in the mix. Investments that are non-correlated with each other decrease volatility (risk). Decreasing risk increases the return. If our portfolio is

mostly stocks and bonds and then we add the stamps to the mix, how correlated is the stamp? Since there is no historical correlation data on the stamp we will use the inflation adjusted Treasury (TIPS) bond as a proxy and compare it to the Vanguard's S&P 500 Index and Total Bond Market Index funds. The correlation with the S&P 500 is -0.05, which says that the Forever stamp and the stock market are not correlated. The correlation with the bond index is 85, which means the bond market and inflation protected securities have high correlation. **Not correlated with the stock market.**

### Summary

The Forever stamp turns out to be a mediocre investment. While tax efficiency is high, risk is low, and the lack of correlation is helpful, the poor returns and lack of liquidity make this the stamp useless as an investment. Tip: Buy Forever stamps just before the next postal increase for a quick profit!

---

Investor's Capital Management, LLC provides financial planning and manages investment assets so that clients can relax and stop worrying about it. Many of our clients are self-directed investors, and we enjoy helping them become more successful by following our professionally designed and monitored portfolios. **Our professional services are cost-efficient, and it's rare when a client doesn't make or save more than it costs.** As independent financial planners, we have a **fiduciary responsibility** to our clients to always put their best interests first. This may seem obvious to you, but in fact it is all too rare in the financial services area.

We are fee-only financial planners. A client's fee is the only payment we receive so that we work solely in their best interests. We do not take product commissions, nor do we gain from any portfolio activity. **No sales pressure - ever!**

The articles page on our website covers planning issues from real estate to long-term care, from investment risk to college funding, and more. See the rest at: <http://www.feesonly.com/Articles.html>.

### OUR MISSION:

Giving clients the clarity and confidence they need to make consistently sound choices. If we may be of assistance in any way during the weeks and months ahead, please call or email. Check out our financial planning services: <http://www.feesonly.com>.

For others who may benefit from the monthly MoneyMinute, please forward. To sign up for your own copy: <http://www.feesonly.com/moneyminute.html>.

Rich Chambers, CFP®

Julie Schatz, CFP®

Jennifer Cray, CFP®

Investor's Capital Management, LLC, Menlo Park

Providing Unbiased Guidance to Financial Success

Member of NAPFA and the Garrett Planning Network

650-323-4706 [info@feesonly.com](mailto:info@feesonly.com) <http://www.feesonly.com>

If you don't wish to see the MoneyMinute in the future, just reply to this message with "unsubscribe" in the subject.

**Legal Disclaimer:** Investor's Capital Management, LLC <http://www.feesonly.com>, and the *MoneyMinute* email does not render or offer to

render personalized investment advice or financial planning advice through this free service. This service is limited to the dissemination of general information only. For specific financial advice you must enter into a formal relationship with a financial adviser.

Caution: All e-mail sent to or from this address will be received or otherwise recorded by ICM and is subject to archival, monitoring or review by, and/or disclosure to, someone other than the recipient.