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Key Points

- Lessons Learned From the Facebook IPO
- Public Offerings Are Evolving
- Be Aware of Private Equity Risks
- ABC's of Investing in Dividend Stocks
- Diversification Is Essential

Plus

- Retirement Strategies for Senior Executives
- Tips to Retaining Post-Retirement Cash Flow

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(Please remember to use lowercase letters.)

What the Facebook IPO Teaches Us About Secondary Markets

By Greg Brown

Just how far "off" was the Facebook IPO? If you followed the pricing of shares in the company before the historically huge initial offering, not by very much.

According to data from private shares trading platform SecondMarket (www.SecondMarket.com), weighted monthly averages of trades in the company before the offer were in the single digits in April 2008, four years before the offering.

Facebook private shares languished in the single digits before really getting traction in late 2010. By the time the stock was ready for primetime, insiders were exchanging shares for around $42 a pop. Facebook founder and CEO Mark Zuckerberg was on his way to becoming an overnight multi-billionaire.

We all know what happened next: Facebook fell like a rock, limping to a close on its first trading at just above $38 after a shaky, delayed start on the Nasdaq. Thousands of orders got log-jammed. The deal was widely criticized in the media as botched.

Within days, a class-action lawsuit was filed against Facebook and against Morgan Stanley and other Wall Street banks behind the offering. The suit charges that they misled investors about revenue projections for the company.

Under federal securities law, the prospectus and registration statement had to give investors a clear picture of the current state of the firm and its prospects. Facebook management allegedly warned the banks that revenue has been slipping as users shift over to the mobile version of the site, which is harder to monetize. At issue is whether the banks told ordinary investors in a timely fashion.

As a result of the debacle, it may take some time for the much larger, public-market audience to fully price the company in the way that insiders seemed to believe was appropriate. Zuckerberg is still a multibillionaire, of course, but lots of small investors took a bath.

The story of Facebook's IPO is an interesting glimpse into the psychology of public offerings by extremely visible, yet privately held, brands. One cannot imagine as much press, for instance, surrounding the launch of a tiny solar or biotech firm. Yet exactly these kinds of companies — as well as community banks and claims against bankrupt firms such as Lehman Brothers and Eastman Kodak — make up a huge, previously little-publicized trading arena, known as the secondary market.

Public Offerings Not New, Just Evolving

It's not new: Online platforms such as SecondMarket.com, Sharespost.com, and Nyppex.com are just the latest wrinkle in a business that dates back to the early 1980s and casts a long shadow among major investment banks, as well as European and Asian banks, state retirement funds such as the California Public Employees' Retirement System (CalPERS), and large insurance firms.

What's driving change is, in part, a trend toward private companies staying private for longer periods. That creates hundreds, sometimes thousands of employees and former employees interested in cashing out well before a stock offering. A recent study by SecondMarket of its users found 81 percent were shareholders by virtue of jobs they used to hold. Most of the balance (18 percent) were current employees looking to sell.

"What these companies like Sharespost and SecondMarket are is just a really big broker. They are not creating a market that didn't exist. They just concentrated it and promoted it," says Yaacov Silberman, managing partner at the law firm Rimon, P.C., which is headquartered in San Francisco and has offices on both coasts.

"It made it a little easier for the user, and there's more information. If somebody did a trade in the last six months there was no way to know what it went for. Now that information is available," Silberman says.

Secondly, changes made under the JOBS Act, signed by President Obama in early April, dramatically increase the number of shareholders a private company can have before filing with regulators, exempt smaller companies from registering at all, and deregulate advertising of private placements — all potent accelerants for secondary trading.

The implementation of the law is under way, but early reception and criticism is telling: Tech companies love the idea, while investor advocacy groups and the AARP are highly concerned about potential abuse.

"There is a strong risk that you are buying stock that you can't get rid of, because the market doesn't exist for it," says Silberman. "There is a false perception that if you get into a stock pre-IPO you're in the money. The buyers are all accredited investors, and they're all supposed to be sophisticated. But there is a group mentality going on here, a group frenzy. There's plenty of examples to support that conclusion, but also plenty of counterexamples."

"You never ever know what other people's interests are in a company. You see people on boards who have conflicts of interest, and they are allowed to have investments in a company with conflicts of interest before it goes public."

— Doug Goldstein

Even more interesting than the sellers are the profiles of buyers. Mostly, it's asset managers and various flavors of institutional investors, such as hedge funds, family offices, and mutual funds. But a large slice of buyers, through SecondMarket at least, are individuals, at 19 percent of the total.

Chances are, if you are an accredited investor, you might be that individual. But should you be?

"When I talk to my clients about the concept of illiquidity, they see my lips moving, but they don't hear the consequence of that," says Doug Goldstein, a certified financial planner and director of Profile Investment Services, with offices in Miami, Fla., and Jerusalem, Israel.

"They say, 'I have $500,000. No problem, I can tie it up for five or six years.' Then a year later they have a kid getting married and they want to sell it and they say, 'Don't worry, I can take a haircut.' They don't seem to understand that illiquid means there is no market for it."

Be Aware of The Risks

Another risk is the potential for change in the estate tax. At the end of 2012, unless Congress acts to extend current law, the estate tax will fall to $1 million per person. Like a farmer's heirs forced to sell the farm to pay the estate tax, inheritors of illiquid assets could be stuck.

"If you die, it could turn into a huge problem. You might have to pull it out of an IRA instead of stretching it out," Goldstein says. "They would have to make withdrawals and then pay the tax on it. It's adding insult to injury."

At bottom, it's essentially impossible to measure the motives of buyers and sellers, Goldstein notes, which introduces a level of risk that small investors should be wary about.

"You never ever know what other people's interests are in a company. You see people on boards who have conflicts of interest, and they are allowed to have investments in a company with conflicts of interest before it goes public," he explains. "The only way you know the value of the shares is what the company itself tells you, which is something that can be manipulated for any number of reasons."

Not only is it harder to look at the numbers of a private company, you might not even try. If you come into shares because of personal connections, it's easy to feel that you trust the person, so you should trust the company.

You should trust people, but also bring a lawyer, Goldstein says.

"If you're going to go into a private equity deal of any significance, you need to go in with your own lawyer, not the lawyers of the company," Goldstein explains. "A lot of times when people invest, they put in $100,000. What, you're not going to put in $5,000 for a lawyer?"

If you come into shares through a business, as an employee, or on the secondary market, the immediate concern, of course, is how to eventually liquidate your position.

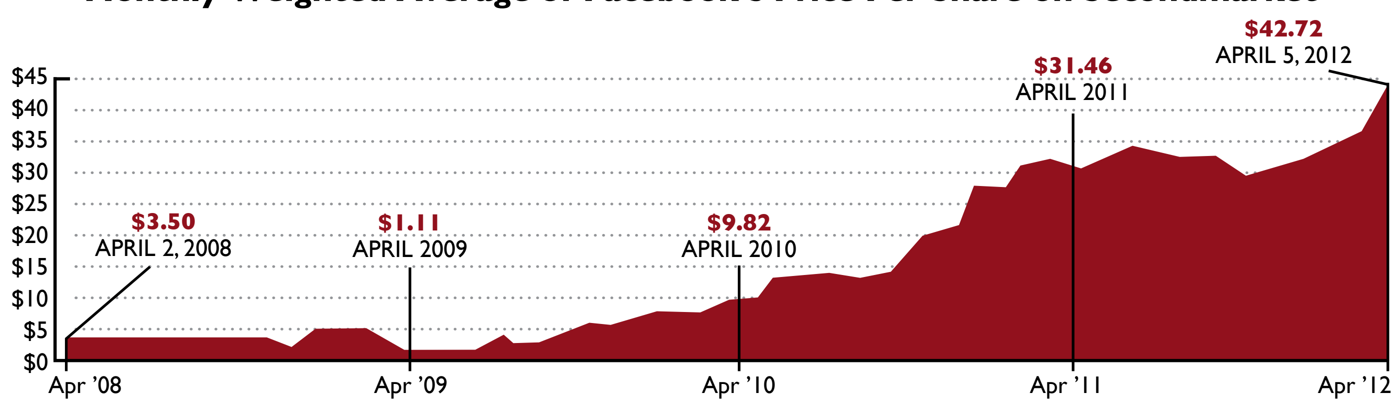
Depending on the size of the company, the place to learn about that demand could be through a secondary market platform such as SecondMarket or Sharespost, says Tim Keating, CEO of Keating Capital in Denver, Colo.

Do Your Homework Thoroughly

Once you assess the interest among outsiders, talk to the company itself, he says. "Work with the company to get a list of current shareholders who might want to add to their positions at the most recent traded price or at a discount," he says.

Investment firms such as his own are potential buyers as well. "We get approached all the time. Pick a portfolio in our company, and we get approached. People say 'Hey, we see you are an institutional investors in this stock.' We very much welcome the inquiries. We've been responsive to those inquiries in the past, especially if we have less than a full-sized position," Keating says.

Monthly Weighted Average of Facebook's Price Per Share on Secondmarket



Monthly weighted average is estimated based on price and volume data for transactions conducted through SecondMarket in a given month. All prices have been adjusted to reflect historical stock splits.

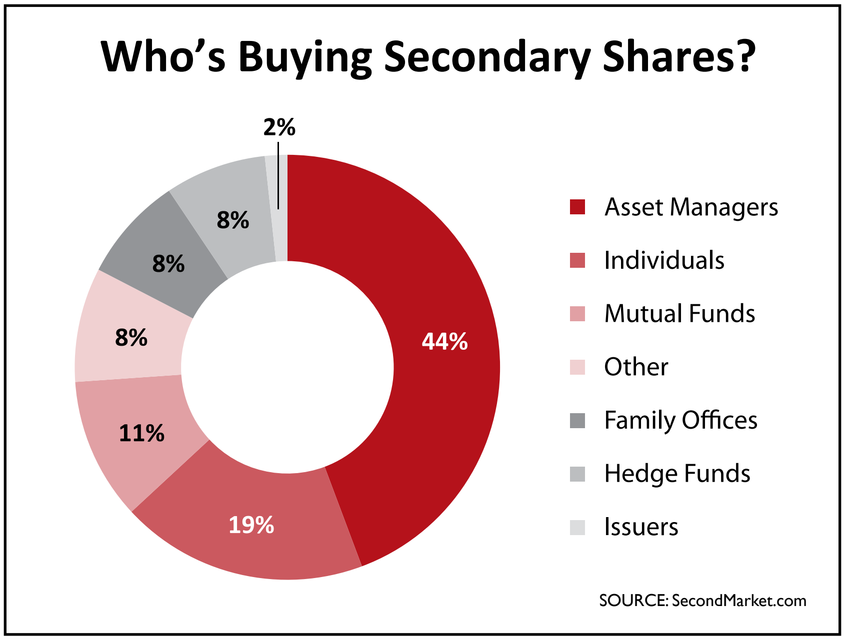
SOURCE: SecondMarket.com

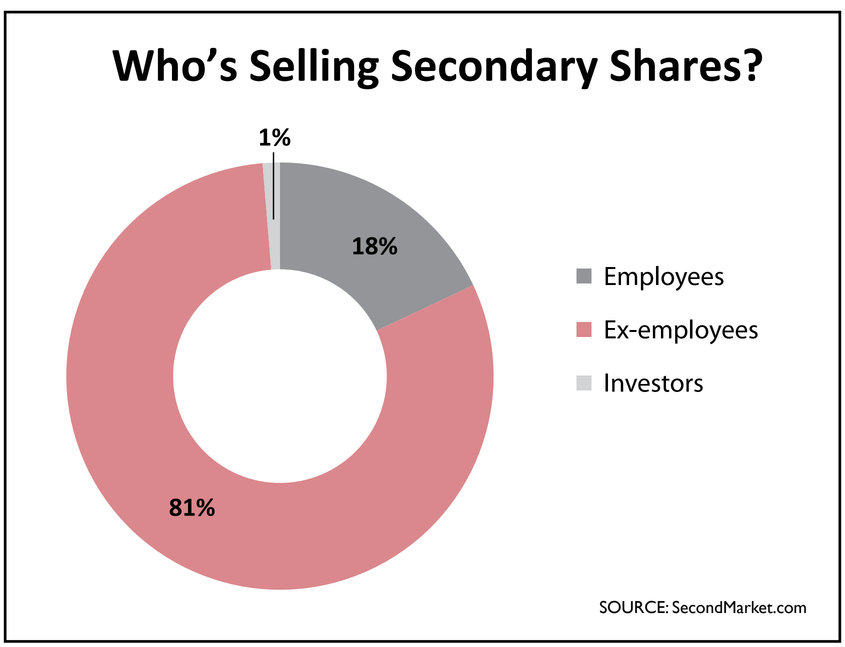
There are also traditional private equity firms that are in the market to buy private shares in order to provide a cash exit for business owners.

"They're called independent managers of secondary private equity and co-investment funds," Keating says. "It's really secondary private equity. This is not new but it's really exploded in the last decade because private companies are staying private longer."

Financial advisers, however, say that mainstream investors would be better off steering clear of secondary market stocks, at least for now.

"It's like Vegas. If you like playing games like this because it's fun, that's okay," says Adam Koos, a certified financial planner and president of Libertas Wealth Management Group in Columbus, Ohio. "Should you be doing it? If you're in the business of making money, then probably not."





IPO Stocks a Different Breed

One reason the IPO market is riskier than before is the entire stock market is looking for solid ground these days. Investment pros are debating whether the "cult of equity" is dead, an argument whose very existence you can take as a strong warning or as a sign of a long-term bottom in stocks.

Either way, don't expect a rebound soon, says Koos. Uncertainty about even established equity makes IPOs difficult to price.

Lack of information is a major concern, says financial adviser Robert Margetic, author of *How to Survive the Coming Retirement Storm*.

"Buying into the secondary market is a crapshoot," Margetic says. "Underwriters provide hints, winks, and nods to their best customers regarding the offering. The information in the prospectus and the dog-and-pony shows underwriters make to institutions and top client investors is regulated, but that doesn't mean subtle signals aren't given off."

Margetic points to the example of Facebook, whose own underwriter, Morgan Stanley, reportedly downgraded the stock just before the offering. "This somehow got signaled to the institutions who held off buying. This should not happen without the information being available to all investors. Insiders almost always have the advantage," Margetic warns.

Part of the motivation is in the rules. Insiders can't sell for 90 days after the IPO, so they have a lot of incentive to generate momentum in the share price, at least for the short term. That leads to all sorts of conflicts, especially since private company data is hard to figure out, and because there is no track record to consult, Margetic says.

"Valuation for the individual is very difficult. Up front is the decision on whether or not to join the scrum," Margetic says. "Tech companies tend to over-hype things and many companies sell at something quite less than the IPO price months later. It's more of a thrill ride and gamble as opposed to sound investing."

All this assumes you're comfortable with the company and its story. If you're offered a chance, as an accredited investor, to get into a lesser-known stock, the level of due diligence is higher still, says Keith Newcomb, founder of Full Life Financial in Nashville, Tenn.

The key to even considering an IPO of a company whose story is unknown to you is to start with checking out the person making the offering.

"No. 1, does it actually sound like an appealing opportunity, and if it does, start off with the simplest due diligence you can imagine: Check the licensure of the person pitching it to you. Call your state securities department and ask if them if they have had notices of sale filed and if the broker-dealer is properly registered and licensed," Newcomb says.

You might already trust the person making the pitch. If so, watch out. "That's where it gets dangerous. If you have a trusting relationship with the person presenting it to you, it's wonderful that you have that relationship, but check everything out anyway," Newcomb says. "There's always the chance that the person you trust is wrong."

Another red flag: Is the broker making the offer doing so on behalf of his or her own firm, or on the side?

"If they tell you it's approved, make a note of it and call the main number of the firm in the fine print on the back of your statement and confirm it with their legal and compliance department," Newcomb says.

Once you get past these relatively simple hurdles, if the deal still sounds good, it's time to dig. You will likely get stacks of material to review. You should read it all, and seek expert, outside help from professionals not associated with the deal being offered.

"If you are weighing a serious commitment and you are not an analyst, engage your own analyst to review the materials. Ask a trusted professional not associated with the offering, your CPA, a tax attorney, your financial adviser, ask them to suggest an analyst who can assess the quality of the opportunity," Newcomb says.

So many people don't even look at these documents, he explains. "If one of these deals comes to you through a trusted broker or adviser, you may be inclined to assume that the broker has done the due diligence," Newcomb says. "You shouldn't assume, you ask what due care the broker has taken in regard to the opportunity, and ask for a copy of their findings." ■

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Dividend Daze: Don't Just Go for Yield

By Forrest Jones

Facing interest rates near zero and an economy awash in liquidity, investors are finding it hard to unearth a good return these days.

Add to that, uncertainty has investors constantly on edge, sending markets soaring on better-than-expected economic data one day and tanking the next when figures fail to meet expectations.

Traditional income-producing investments aren't looking so hot — yields on Treasury bonds have fallen to record lows, leaving many wondering where to stash their cash without seeing it eaten alive by inflation.

With such a backdrop, dividend stocks are growing increasingly attractive and rightly so.

Total Yield by Sector

	Dividend Yield (%)	Buyback Yield (%)	Total Yield (%)
Cyclicals			
Cons Discretionary	1.6	5.3	7.0
Industrials	2.6	3.2	5.7
Energy	2.1	3.0	5.1
Technology	1.1	2.9	4.0
Materials	2.4	1.5	3.9
Non-Cyclicals			
Health Care	2.3	3.8	6.1
Cons Staples	3.0	2.8	5.8
Telecom Services	5.5	-0.1	5.4
Utilities	4.1	-0.5	3.5
S&P 500 ex-Financials	**2.2**	**3.1**	**5.3**
Financials	2.3	4.0	6.2
S&P 500	**2.2**	**3.2**	**5.4**

SOURCE: S&P, Compustat, Fact Set and UBS

When picking a good dividend stock, experts say, do your homework first and secondly, don't get caught up in yield or growth rates alone.

Many investors who set out hunting for dividend stocks tend to look for the fastest-growing dividend, a common trap to avoid.

Fast-growing dividends often reflect a very small payment base, and hiking it by just a little makes the percentage increase look like the company is doling out big chunks of money to shareholders when it really isn't.

As an investment, it might not be worth it.

Others chase the high dividend yield, which can also come back and haunt the less-than-savvy investor.

The dividend yield measures the dividend income in a year relative to the share price, and a high dividend yield could reflect a low stock price.

It might also be unsustainable, experts say, pointing out that companies who end up cutting dividend payments often take a bruising in the market.

"You'll find that there are stocks that yield 10 percent to 12 percent to 15 percent or sometimes 20 percent. Those companies tend to be the riskiest dividend payers of all," says Josh Peters, director of Equity-Income Strategy and editor of Morningstar's "DividendInvestor" publication.

Investors need to worry if such a hefty dividend yield can be sustained.

"When the dividend gets cut you don't get the income you expect and you probably lose money on the stock price as well," Peters says.

A balanced, total return profile should involve stocks carrying a dividend yield of between 3 percent and 7 percent and a dividend that will also grow over time.

Earnings per share should continue rising as well, even after paying dividends, Peters says.

Other financial experts agree.

"Dividend-paying common stocks certainly have a role in the portfolio. They have a role in the portfolio for cash-flow purposes, they have a role in the portfolio for capital appreciation purposes, and for tax advantages," says Jack M. Firestone, principal of Firestone Capital Management.

Dividend stocks are taxed at a more competitive rate compared with ordinary income.

"But in order to own dividend-paying

common stocks prudently you don't want to have all your eggs in one basket. You want to have a diversification across industry types, a diversification across company types. So if you are going to hold individual investments, you are probably going to need 20 different stocks."

Diversification Is Essential

With yields on Treasury bonds low, large-cap dividend stocks are appealing, although quality mid-cap stocks can't be ignored either, especially amid such uncertain times marked by ultra-loose monetary policies.

To spur recovery, the Federal Reserve has pumped trillions of dollars into the economy by purchasing bonds held by banks.

Supporters of such extraordinarily loose monetary policies say such liquidity injections steer the country away from deflationary decline and promote hiring.

Critics dub such policies printing money out of thin air, saying they haven't done much to spur hiring but have planted the seeds to fuel inflation down the road.

To date, inflation remains under control, but the labor market remains far from recovered.

In other words, uncertainty reigns supreme, and that's without any unseen implosions in debt-ridden eurozone periphery countries like Greece.

"Uncertainty in the economy and uncertainty in your daily life and uncertainty in the political realm all drive not only the consumer's desire or ability to purchase, but it also drives corporations' desire and ability," says Firestone.

That means like any investment, dividend stocks often don't stand alone but form part of a balanced portfolio designed to provide investors with reasonable rates of return.

"Part of the strategy is to keep people from doing stupid things. The portfolios may be boring and not much to talk about at cocktail parties, but it's going to feel a lot better when you get to retirement and your money is there," he says.

Furthermore, never assume there aren't potholes in otherwise safe sectors of the economy, Firestone says.

"You can't just go out and pick a stock and say 'this stock is going to be great,' because if you look at high dividend paying common stocks in 2008 the banks were all paying dividends on common stocks. And they were on such shaky ground and made such bad decisions they couldn't support the dividends anymore and then the dividends went to zero," Firestone says.

"You have to have faith in the company's management that they are going to buy back stocks, make more investments or pay back a dividend. It's not just cash flow but what you need to do with the capital and the ability to keep on earning capital."

Other experts point out that there's no reason to go at it alone, as there are a sea of investment options out there from which to choose, including index funds and mutual funds that provide sound investment strategies.

Don't Go It Alone

"I would recommend that they don't try to do the research all on their own. There are a number of investment vehicles out there that have already done their homework and screen for dividends in various different ways," says Carlos A. Carbonell, principal at Firestone Capital Management.

"There are mutual funds, there are exchange-traded funds (ETFs) — there's definitely an easy way to get the diversification of 20 to 30 stocks or a 100 stocks via a fund or an ETF. There's a great way to get international dividend companies, there's a great way to get pretty much any segment of the market, whether it's small-cap, mid-cap, large-cap or international to focus on the dividend payers within those subclasses."

Attractively priced index funds may not be as actively managed as mutual funds, but they will make sure the right companies are included.

"If companies don't meet the index parameters, they'll get replaced by others that do, but that's more of a once-a-year thing," says Carbonell.

Mutual funds will keep an even closer eye on the dividend-paying companies in their portfolios. ■

Winning Retirement Strategies for Senior Executives

By Julie Crawshaw

Few senior executives have enough hours to spend with family and friends, let alone to spend on personal financial planning. Yet, given the complexities and importance that retirement planning holds for senior execs, few things are more important to their ongoing financial well-being, experts say.

The key to a successful retirement is looking closely at potential consequences of your decisions, according to Colleen Betzler, principal, chief operating officer, and senior financial adviser at Brinton Eaton, an SEC-registered investment advisory firm in Madison, N.J.

"I find that many senior executives don't pay as much attention as they should," Betzler says. "They let their elections roll over year after year, reading their financial plans enough to understand them but not necessarily keep up with them, taking advantage of supplemental plans and looking into whether or not deferred compensation makes sense for them."

Senior executives should make a point of reviewing their post-retirement cash flow with their financial advisers, says Betzler, and make sure to discuss the following:

Compute realistic post-retirement spending: This means comparing current expenses, many of which may be company paid, to what you'll have to pay out-of-pocket following retirement. Moreover, many people actually spend more after they retire, at least for the first couple of years, simply because they have more time to spend in leisure pursuits.

Set aside enough to cover healthcare costs: "Assume there's a certain dollar amount that's going to be out-of-pocket over and above Medicare," advises Mark Mathers, CFP, senior client adviser for Silver Bridge Advisors in Boston.

Mathers figures his clients will have to spend about $6,000 per person per year, compounded at seven percent per year, over and above the cost of Medicare, not including long-term care insurance costs.

Although Medicare kicks in at age 65, executives still need a supplemental plan. "Some firms grant a set amount toward an executive's benefits and when that is exhausted, he or she can participate in the plan at their own expense," says Betzler. "Whatever your company's policy, factor it in to your plan."

Look closely at compensation deferral: The actions you take on deferred compensation depend on the terms of your agreement with the company and the form the compensation takes, Mathers says.

"Many people don't think about this until they are too close to retirement to be able to renegotiate and change things around the way they want to," he says, which is why senior executives with five to 10 years to go before retirement should look at renegotiating the design of their deferred compensation plans to ensure they're offering satisfactory options.

Keep contributing as much as possible to 401(k) plans: For most people, putting the allowable maximum annual contribution of $17,000 into a 401(k) every year is enough, but that's not enough to sustain the post-retirement lifestyle for someone who's making $500,000 a year or more. "That's why large corporations put supplemental plans in place, but sometimes even senior executives put in just enough to get the company match," Betzler says.

Non-qualified 401(k) elections are put in place annually. "It's not like a regular 401(k) that allows account holders to adjust their holdings at will," says Betzler. "I encourage people to get involved five to 10 years before they retire so there are no surprises."

Employees may also be able to make after-tax contributions (subject to IRS limits) to a 401(k) plan. ■