



American Shareholders Association
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June 28, 2004

The Shareholder's Interest

Newsletter of the American Shareholders Association

1. The Stock Options Battle

In light of the 2002 corporate scandals, “reformers” pulled off the bookshelf an ill-advised proposal forcing companies to “expense” stock options on their balance sheets. Currently, companies award stock options to employees which can be cashed in at a later date if the stock price increases. The Financial Accounting Standards Board (FASB) is moving forward with this disastrous proposal forcing companies to expense their stock options. Since no one can possibly guess how much the stock price could be worth in the future, it is nearly impossible for companies to properly value options when they are issued.

If approved, most companies will end the use of stock options, which have become a significant factor leading to the number of new investors in America over the past decade. Of the companies that do retain options on their balance sheets, their forward looking estimates will be off. **This actually hurts corporate governance and individual shareholders more than it helps.**

The latter point is the exact goal of “reformers” who want to rid the use of options, despite the fact that options have created millions of new investors, aligned the interest of management with shareholders, and has boosted shareholder value for individual shareholders.

American Shareholders Association executive director Daniel Clifton and associate Gillian Rundell wrote an op-ed on the subject using the example of Best Buy CEO Brad Anderson to underscore the importance of stock options to individual shareholders, companies, and the U.S. economy. **Anderson declined 200,000 stock options worth \$7.5 million and instead awarded the options to non-executive employees who are helping the company thrive in the face of heavy competition.** If the FASB rule was currently in place Best Buy employees may not have received \$7.5 million in stock options, which also makes companies much more inflexible to competitive threats.

Read the op-ed “What Best Buy Teaches Us” at <http://www.techcentralstation.com/062804F.html>

For a good backgrounder on the issue, see James Glassman’s article http://www.aei.org/news/filter.all.newsID.20608/news_detail.asp

Contact FASB and your members of Congress at <http://www.savestockoptions.org/>

2. Investor Confidence on the Rise

Despite talk of a doom and gloom economy, investor confidence has accelerated quite rapidly over the past month according to two new surveys released today. The UBS Investor Confidence Index jumped 24 points in June to a four-month high, while the Rasmussen Daily Index has been elevated above the 140 mark for seven straight days for only the second time since it was created in October 2001.

The UBS Index results were incredibly favorable towards the investment outlook. Nearly two out three investors say the economy is in a recovery or expansion, up nearly 10 percent over last month. 61 percent are confident they will meet their investment goals this year and more than 70 percent of investors believe they will meet their five year investment expectations. Both numbers are a significant improvement over last month's survey.

The Rasmussen Investor Index gained two points on Monday to 143.9. Overall, today is the 15th day in June that the Investor Index has been above 140. It topped that level just one day each in March, April and May. In January, the Index was over 140 on seventeen days. In February, it reached that level on five days. The Rasmussen Investor Index is *up* six points from a week ago, *up* twenty from a month ago and *up* twelve from three months ago. Rasmussen tracks investor and consumer confidence on a daily basis and also provides polling data on current event questions. His surveys are an ASA favorite to gauge the pulse of investors. The company provides headline data for free and more in depth data for a small amount.

You can check out the website at <http://www.rasmussenreports.com>

3. Goldman Sachs Concludes Kerry Is A “Modest Negative” for Stock Prices.

Last week, investment giant Goldman Sachs put out an analysis concluding Democratic Presidential candidate Sen. John Kerry is bad for stock owners. The report cited new regulations, the repeal of capital gains and dividend tax cuts, and minimum wage legislation as all factors resulting in less shareholder value.

ASA believes that Goldman is underestimating the importance of repealing the capital gains and dividend tax cuts when they say Kerry is a “modest negative” for stock prices. All capital gains tax reductions have been followed by a rise in stock prices, job creation, and Gross Domestic Product. Conversely, the 1986 increase of capital gains tax reduction, of which Kerry voted for, resulted in the opposite effect on the three variables just mentioned. Moreover, the dividend tax cut has been a smashing success leading to hundreds of companies initiating first dividend payments to shareholders and thousands of companies increasing their dividend payments to shareholders. Repeal of the legislation will force companies to stop returning cash to shareholders which is bad for shareholders AND corporate governance.

View the ASA report on John Kerry's 19 year record on investor issues:

<http://www.americanshareholders.com/news/asakerryreport03-22-04.pdf>

Read today's Dallas-Forth Worth Star Telegram article on dividend changes since the tax cut:

<http://www.dfw.com/mld/dfw/business/9030220.htm>

4. Rep. Johnson Introduces Retirement Savings Account Legislation

Last week, ASA reported a number of state legislators have passed resolutions instructing the state's congressional delegations to pass Lifetime and Retirement Savings Accounts. We also reported that if the proposals spur 40 cents of new savings, the proposals will finance themselves at no cost to the U.S. Treasury by spurring new investment.

Rep. Sam Johnson, a long time advocate of removing the double tax on savings and investment, introduced his proposal for Retirement Savings Accounts. The Retirement Savings Account Act, H.R. 4714, would consolidate the three types of current-law IRAs into a single account. After-tax annual contributions of up to \$5,000 per person would be permitted with no income caps. Earnings on these retirement accounts grow tax-free and distributions after age 58 would be tax free. The \$5,000 contribution limit would be indexed for inflation. Rep. Johnson introduced similar legislation for Lifetime Savings Accounts legislation last March.

The proposal was endorsed by Secretary of the Treasury John Snow. Snow remarked:

Retirement Savings Accounts will be a terrific tool to help Americans plan and save for their retirement, with no limitations based on age or income status. They will also simplify saving, which will help Americans reach the goal that we all share: a secure retirement.

Read Rep. Johnson's press release:

<http://www.samjohnson.house.gov/News/DocumentSingle.aspx?DocumentID=4453>

Read Sec. Snow's full statement:

<http://www.treas.gov/press/releases/js1751.htm>

Read ASA's report on Lifetime and Retirement Savings Accounts:

<http://www.americanshareholders.com/news/asasavings12-03-03.pdf>

Tell your Senators and Congressman to support Lifetime and Retirement Savings Accounts!

http://capwiz.com/atr/mail/oneclick_compose/?alertid=5037501

5. SEC Approves Terrible Mutual Fund Regulation

In the wake of the recent scandals in the mutual fund industry, the Securities and Exchange Commission (SEC) voted 3-2 to require that independent outsiders head board chairmanship of mutual funds. ASA opposed the new rule because the proposal will actually hurt individual shareholders rather than help them.

Following the scandals, regulators rushed to institute new rules guised as helping individual investors and preventing these occurrences from happening in the future. However, this rule which was the centerpiece of the reforms will do nothing to prevent similar occurrences in the future. In fact, some of the firms that were caught cheating investors already had independent chairman. There is absolutely no justification for saying this rule will prevent future occurrences of wrongdoing. Despite this, the rule took considerable time to implement which prevented real reform from occurring.

Proposing rules and mandates unrelated to the scandals will have the effect of hurting the mutual funds positive qualities and thus could hurt individual shareholders and family balance sheets. ASA believes the right remedies are to correct the current imbalances while preserving the majority of positive qualities of mutual funds which are responsible for expanding stock ownership to the middle class.

The two Republican members of the SEC board, Paul Atkins and Cynthia Glassman sided with individual investors and voted against this new regulation while once again Republican SEC Chairman sided with the two Democrats, Harvey Goldschmid and Roel Campos, in passing the proposal.

6. Economy Watch

Mainstream media continue to downplay the growth of the economy despite the fact that the economy is growing at its fastest rate in 20 years. Each week, ASA will provide some data on the economy, both good and bad, to get a more balanced picture.

- **Gross Domestic Product**, the measure of economic growth, increased 3.9 percent in the first quarter of 2004. The number was revised downward from a preliminary estimate of 4.4 percent but is still far above the historical average of 3.2 percent. Since the tax cut was put into place, economic growth has averaged 5.4 percent growth per quarter.
- **Personal Income**, the measure of income of Americans, increased 0.6 percent in May with the amount of after tax income rising by the same amount. Year over year growth has accelerated to nearly 6 percent and after tax income is up 6.4 percent over the past twelve months. Wage and salary growth is up more than 5 percent year over year, despite the fact that politicians are screaming American incomes are not going up.
- **Consumer Spending** continued to increase rising by 1 percent in May, the largest gain since October 2001. After taking inflation into account, spending increased 0.4 percent and total spending is up 6.4 percent over the past year.
- **Durable Goods**, the advance release of overall factory orders and shipments, declined for a second month in a row, but orders still up 12.6 percent year over year. Shipments of non defense capital goods, a proxy for business investment declined by 2 percent which is indicator of falling business investment. ASA is of the belief that without extending the accelerated depreciation rules in place, business investment will continue to decline throughout the year since companies cannot place the equipment in service before the December 31st expiration date. This presents a significant downside risk to the economy.

Upcoming Notable Economic Data Affecting Markets

- Federal Reserve Interest Rate Decision
 - Consumer Confidence
 - Manufacturing Output
 - June Employment Report
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The American Shareholders Association is a non-partisan, not-for-profit organization dedicated to analyzing legislation affecting shareholders. To educate U.S. investors, ASA reports the public positions of elected representatives on these issues to its members. For more information please contact Daniel Clifton at (202) 549-7803 or by email at dclifton@americanshareholders.com