

5 questions

with Tom Warburton

Tom Warburton is a principal of Warburton Capital Management, which he co-founded with Eric Jenkins. Warburton's resume' includes tenure with First National Bank of Chicago, Bank of Oklahoma and JPMorgan-Chase. He is a graduate of Indiana University, where he was an All-American swimmer. An active musician with The Glyders, he has volunteered with United Way, Boy Scouts, Oklahoma Jazz Hall of Fame, Tulsa Opera and the PGA Championship and U.S. Open.

1 When was Warburton Capital Management founded and exactly what do you do?

I started thinking about founding WCM on July 4, 2002, but we didn't open the doors until June 2006 when it became apparent that traditional wealth managers were overcharging for services that were inferior, and that their core beliefs were inconsistent with Nobel Prize-winning academic evidence for good investing. My partner, Eric Jenkins, and I serve as "personal CFO's" for our individual, family, business, endowment and foundation clients. We work with clients to optimize both sides of the balance sheet (assets & liabilities), mitigate tax liability and enhance the wealth transfer process. Our services are fee-based. We don't offer products with embedded commissions because commission-based products often conflict with the best interests of clients and are expensive for the benefits they offer.

2 You advise not to buy individual stocks, ever. Please explain what you mean by recommending this strategy?

Owning stock in an individual company is a very risky proposition. Stocks move dramatically down and companies go broke for inexplicable reasons. Examples of American icons that became famous corporate bankruptcies include Bethlehem Steel, Burlington Industries, Chiquita Brands, Continental Airlines, Enron, Greyhound, Kmart, Montgomery Ward, Oneida, Polaroid, Seven Up, Texaco, Top-Flite, Western Union, WorldCom and Zenith, to name but a few. Owning a "basket" of similar companies eliminates the risk of owning a single stock. Stock-picking makes no sense for reasons beyond the potential for bankruptcy. Nobel Prize-winning economist Harry Markowitz stated concisely that "concentrated investments add risk with no additional



MIKE SIMONS/Tulsa World

expected return." The negative aspects of concentrated positions also apply to sector concentrations (financials, health care, energy, technology, etc.), style concentrations (growth stocks or value stocks), capitalization concentrations (large cap or small cap stocks) and domicile concentrations (US, EAFE or BRIC). The only methodology that makes sense is broad and purposeful — permit me to restate "purposeful" — diversification.

3 What is the most valuable investing lesson you've learned over the years that you wish you had learned when you were in your teens or as a young adult?

Buy and hold index funds. Indexing is the only strategy that makes sense for both stocks and bonds. Investors should spend more time learning about index funds and less time chasing returns, listening to would-be clairvoyants and gambling. Indexing sounds easy, but building a portfolio of index funds that work together to create an appropriate portfolio that minimizes overall volatility while reducing explicit mutual fund expense ratios and managing implicit tax expense gets complex. The best index funds are not offered to the public and not

available through traditional wealth managers.

4 Given the stock market's recent volatility, should investors rebalance their portfolios or do anything different?

If we assume that an investor has a purposeful portfolio, the answer is no. Market conditions should never motivate rebalancing. Rebalancing based on market conditions is thinly veiled market-timing. A change in an investor's personal situation might motivate rebalancing. As regards to the discipline of rebalancing, a good article in the 2008 issue of the Journal of Financial Planning by Gobind Daryanani examines the costs and benefits of various rebalancing tactics and strategies. Practical application of his recommended "tolerance band" approach is problematic for taxable accounts but might be suitable for tax-sheltered accounts. We view taxes as an element of portfolio management that is not of central importance but should not be overlooked; hence, we rebalance portfolios, if necessary, on 13-month intervals to avoid penal short-term capital gains in favor of more attractive long-term capital gains treatment.

5 For a novice investor who wants to learn more about stocks, bonds and other investment vehicles, what are some helpful resources (i.e. Web sites, books or other materials) you might recommend they check out?

The "core beliefs" tab on our Web site at tulsaworld.com/warburton provides investors with the foundation of necessary knowledge. Excellent books include "A Random Walk Down Wall Street" by Burton Malkiel, "The Intelligent Investor" by Benjamin Graham, "The Intelligent Asset Allocator" by William Bernstein, and "Winning the Loser's Game" by Charles D. Ellis. They provide plenty of scientific evidence. When it comes to the all-important discipline of removing greed, fear and other human emotions from investment decisions and achieving "emotional neutrality," I recommend the 1841 classic "Extraordinary Popular Delusions and the Madness of Crowds" by Charles Mackay. If you prefer your education in bite-size bits, we publish a weekly "About The Market" e-mail devoted to investor education. There is no charge, and interested parties are welcome to subscribe via our Web site.

Interview conducted by Laurie Winslow, World staff writer

Exxon reports record earnings

BY JOHN PORRETTO
Associated Press

HOUSTON — Exxon Mobil Corp. reported second-quarter earnings of \$11.68 billion Thursday, the biggest profit from operations ever by any U.S. corporation, but the results were well short of Wall Street expectations and its shares slumped 4.9 percent.

The world's largest publicly traded oil company said net income for the April-June period came to \$2.22 a share, up from \$10.26 billion, or \$1.83 a share, a year ago.

Revenue rose 40 percent to \$138.1 billion from \$98.4 billion in the year-earlier quarter.

Excluding an after-tax charge of \$290 million related to an Exxon Valdez court settlement, earnings amounted to \$11.97 billion, or \$2.27 per share.

Analysts on average expected Exxon Mobil to earn \$2.52 a share on revenue of \$144 billion, according to a survey by Thomson Financial. The estimates typically exclude one-time items.

The record-setting results were largely expected, giv-



A customer pumps gasoline at an Exxon station in Middleton, Mass. Exxon Mobil Corp. reported the biggest quarterly profit ever by any U.S. corporation Thursday, but the results were well short of Wall Street expectations. Exxon Mobil shares fell 4.9 percent. LISA POOLE/Associated Press

en that crude prices in the second quarter were nearly double what they were a year ago. Natural gas prices were significantly higher too.

But investors expected even bigger profits Thursday, especially after Europe's Royal Dutch Shell reported a 33 percent jump in second-quarter earnings to \$11.6 billion, which fell just shy of Exxon's own record earnings from 2007.

Exxon Mobil shares fell \$4.17, or nearly 5 percent, to \$80.21 on the New York Stock Exchange.

Setting U.S. profit records has become commonplace for Irving-based Exxon Mobil. The \$11.68 billion topped its own U.S. record of \$11.66 billion, posted in the fourth quarter of last year. Right behind that was the \$10.9 billion it reported to start 2008.

Exxon Mobil, which pro-

duces 3 percent of the world's oil, got its biggest boost from its exploration and production arm, where earnings rose 68 percent to \$10.01 billion from \$5.95 billion a year ago. The main driver was record crude prices, partially offset by lower sales volumes and higher operating costs.

Once again, Exxon Mobil's results revealed a troubling trend in its business.

Production on an oil-equivalent basis fell 8 percent from a year ago — a significant blow for a company that generates more than two-thirds of its earnings from oil and gas production.

Like its competitors, Exxon Mobil said it took a beating from lower global refining margins. Earnings from refining and marketing fell 54 percent in the quarter to \$1.55 billion.

Bid-rig figure helps FBI, avoids prison

BY ROBERT BOCZKIEWICZ
World Correspondent

DENVER — A man from Mounds, Okla., avoided prison Thursday because he had given substantial help to authorities investigating a bid-rigging conspiracy that he was part of.

Kenneth Rains instead was fined \$10,000 and sentenced to four months of home confinement. The punishment is for conspiracy to suppress and eliminate competition on an oil field project near Durango.

Rains was manager of the regional office in Farmington, N.M., of Tulsa-based Flint Energy Services Inc., an oil field construction and maintenance company.

The company was fined \$150,000 in 2006 for the same crime in the same case.

The case, filed in U.S. District Court in Denver, was prosecuted by the Justice Department's anti-trust division.

Rains and Flint Energy Services pleaded guilty in 2006 to conspiracy to rig noncompetitive bids in 2005 for construction of pipelines to transport natural gas from wells in southwestern Colorado. The victim was BP

Kenneth Rains of Mounds and Tulsa-based Flint Energy Services had pleaded guilty to conspiracy to rig bids involving the construction of pipelines from gas wells in southwestern Colorado.

America Production Co.

Rains, 57, could have been sentenced to 14 months in prison under sentencing guidelines if he had not cooperated with the FBI and prosecutors in their investigation of co-conspirators.

As the result of his help, a grand jury last year indicted another oil field company, B&H Maintenance & Construction Inc., and two of its employees as co-conspirators in the bid rigging. B&H had offices in New Mexico.

Rains testified against B&H and its employees last month at their trial in Denver. Prosecutors had Rains' sentencing postponed during the two years of his cooperation.

B&H and the two employees were acquitted last

month. Prosecutors said in 2006 that Flint also had provided "substantial assistance" in the investigation of the co-conspirators.

U.S. District Judge Robert Blackburn, at Thursday's sentencing, also ordered Rains to serve three years of probation under the supervision of a court officer.

Blackburn said he was persuaded not to imprison Rains because of his exemplary history of many years of community service in the Tulsa area and in Farmington, and because of his prompt and complete cooperation with authorities investigating the conspiracy.

Rains and his wife have been distributing food at schools and churches in Bixby for needy children. Rains' pastor, Rudolph Freese of Leonard United Methodist Church, told the judge in writing that Rains' "tireless efforts have brightened the lives of many young people who might not otherwise eat."

Prosecutors had asked the judge to sentence Rains to six months in custody. They said it is Justice Department policy to seek incarceration of persons convicted of anti-trust crimes.

FOREIGN EXCHANGE

The dollar weakened after a Labor Department report showed U.S. jobless claims jumped to the highest level in five years. Inflation in the euro zone hit its highest level since the European Union began.

MAJORS	CLOSE	CHG.	%CHG.	6MO. AGO	1YR. AGO
USD per British Pound	1.9829	+0.0015	+0.08%	1.9900	2.0344
Canadian Dollar	1.0235	-0.0004	-0.04%	1.0040	1.0649
USD per Euro	1.5593	+0.0019	+0.12%	1.4877	1.3690
Japanese Yen	107.90	-0.20	-0.19%	106.43	118.81
Mexican Peso	10.0402	-0.0000	-0.00%	10.8219	10.9560
EUROPE/AFRICA/MIDDLE EAST					
Israeli Shekel	3.5051	+0.0280	+0.80%	3.6132	4.3123
Norwegian Krone	5.1282	-0.0291	-0.57%	5.4105	5.8260
South African Rand	7.3314	-0.0650	-0.89%	7.4809	7.1321
Swedish Krona	6.0496	-0.1478	-2.44%	6.3579	6.7364
Swiss Franc	1.0478	-0.0009	-0.09%	1.0823	1.2023
ASIA/PACIFIC					
Australian Dollar	1.0613	+0.0014	+0.13%	1.1148	1.1677
Chinese Yuan	6.8306	-0.0000	-0.00%	7.1832	7.5735
Hong Kong Dollar	7.8064	-0.0000	-0.00%	7.7971	7.8261
Indian Rupee	42.553	-0.0000	-0.00%	39.280	40.190
Singapore Dollar	1.3678	+0.0002	+0.01%	1.4166	1.5158
South Korean Won	1011.30	-0.0000	-0.00%	943.40	919.12
Taiwan Dollar	30.67	+0.09	+0.29%	32.18	32.91

ENERGY FUTURES

EXP.	OPEN	HIGH	LOW	SETTLE	CHG
HEATING OIL (NYMEX) 42,000 gal, cents per gal					
Aug 08	345.93	354.44	341.30	343.87	-8.16
Sep 08	347.25	356.84	343.00	345.93	-8.65
Oct 08	350.81	359.09	346.49	349.33	-8.55
Nov 08	354.75	362.68	350.46	353.23	-8.35
Est. sales 42,270. Wed's sales 89,542 Wed's open int. 222,759, -6,811					
LIGHT SWEET CRUDE (NYMEX) 1,000 bbl., dollars per bbl.					
Sep 08	123.89	127.89	122.88	124.08	-2.69
Oct 08	124.28	128.19	123.14	124.51	-2.69
Nov 08	125.04	128.29	123.56	124.95	-2.62
Dec 08	124.90	128.65	123.94	125.29	-2.56
Est. sales 335,349. Wed's sales 559,906 Wed's open int. 1,243,548, +29,518					
NATURAL GAS (NYMEX) 10,000 mm bbl's, \$ per mm btu					
Sep 08	9.073	9.350	9.049	9.119	-1.29
Oct 08	9.220	9.399	9.157	9.224	-1.15
Nov 08	9.549	9.738	9.527	9.594	-0.95
Dec 08	10.000	10.120	9.940	9.984	-0.75
Est. sales 90,268. Wed's sales 164,516 Wed's open int. 726,670, +6,536					
NY HARBOR GAS BLEND (NYMEX) 42,000 gallons, dollars per gallon					
Aug 08	3.0485	3.1418	3.0200	3.0480	-0.0871
Sep 08	3.0530	3.1461	3.0290	3.0709	-0.0690
Oct 08	2.9800	3.0549	2.9450	2.9839	-0.0500
Nov 08	2.9950	3.0638	2.9580	2.9994	-0.0645
Est. sales 41,773. Wed's sales 89,646 Wed's open int. 221,547, -3,998					

AGRICULTURE FUTURES

EXP.	OPEN	HIGH	LOW	SETTLE	CHG
CORN (CBOT) 5,000 bu minimum, cents per bushel					
Sep 08	594.50	603.25	585	587.50	-14
Oct 08	614.25	623.25	605	607.50	-13.75
Mar 09	634.25	642.25	625	627.50	-13.75
May 09	646.75	655	637.50	640	-13.25
Est. sales 218,987. Wed's sales 204,448 Wed's open int. 1,223,656, -3,842					
COTTON 2 (NYBT) 50,000 lbs., cents per lb.					
Oct 08	71.31	71.99	71.24	71.65	+2.50
Dec 08	74.35	74.97	74.07	74.50	+1.8
Mar 09	79.94	80.30	79.60	79.89	+2.0
May 09	81.30	81.64	81.30	81.60	+2.2
Est. sales 16,480. Wed's sales 7,003 Wed's open int. 221,016, +949					
OATS (CBOT) 5,000 bu minimum, cents per bushel					
Sep 08	379.50	386.25	375.50	377	-7.50
Dec 08	398.75	408	395	397	-7.50
Mar 09	420.50	421.50	415.25	416.50	-7
May 09	433.25	438	429.50	429.50	-7
Est. sales 3,090. Wed's sales 3,015 Wed's open int. 15,742, +155					
SOYBEAN MEAL (CBOT) 100 tons, dollars per ton					
Aug 08	380.30	383.60	376.00	379.60	+1.00
Sep 08	377.30	381.70	373.20	376.40	-2.0
Oct 08	374.80	378.40	371.60	373.50	-1.00
Dec 08	375.90	380.20	372.10	375.50	-7.0
Est. sales 63,272. Wed's sales 59,409 Wed's open int. 182,464, +324					
SOYBEAN OIL (CBOT) 60,000 lbs., cents per lb					
Aug 08	58.04	58.36	57.47	58.26	...
Sep 08	58.31	58.69	57.68	58.51	-0.2
Oct 08	58.61	58.96	58.04	58.84	-0.1
Dec 08	59.28	59.62	58.62	59.50	+0.2
Est. sales 106,665. Wed's sales 102,168 Wed's open int. 246,825, -4,593					
SOYBEANS (CBOT) 5,000 bu minimum, cents per bushel					
Aug 08	1398.25	1410	1378	1395.75	+1.75
Sep 08	1396	1409.75	1379.50	1394.25	-1.25
Nov 08	1404.25	1417	1387	1404	-1
Jan 09	1421.50	1434.75	1405.50	1422	-7.5
Est. sales 156,891. Wed's sales 148,119 Wed's open int. 396,067, -1,877					
WHEAT (CBOT) 5,000 bu minimum, cents per bushel					
Sep 08	793.25	798.50	782	783.75	-4
Dec 08	818.25	823.25	807	808.75	-3.75
Mar 09	843	845.25	830.50	831.75	-4
May 09	855.50	860	844.50	846.50	-3.25
Est. sales 53,231. Wed's sales 49,118 Wed's open int. 332,201, +3,623					
WINTER WHEAT (KCBT) 5,000 bu minimum, cents per bushel					
Sep 08	817	829	814	814.75	-4.50
Dec 08	843	852.50	839	840.75	-4
Mar 09	867	874	862	863	-4.50
May 09	886	896	878	878	-3
Est. sales 6,791. Wed's sales 10,052 Wed's open int. 98,355, -979					
CATTLE (CME) 40,000 lbs., cents per lb.					
Aug 08	97.97	98.70	97.70	98.40	+5.3
Oct 08	106.10	106.67	105.75	106.30	+1.5
Dec 08	108.15	109.30	107.95	109.02	+8.7
Feb 09	109.20	110.22	109.05	109.65	+2.8
Est. sales 23,653. Wed's sales 30,698 Wed's open int. 294,174, -203					
FEEDER CATTLE (CME) 50,000 lbs., cents per lb.					
Aug 08	112.90	114.22	112.70	113.80	+1.28
Sep 08	113.65	115.65	113.65	115.32	+1.67
Oct 08	114.77	116.55	114.60	116.42	+1.80
Nov 08	115.50	116.80	115.10	116.72	+1.40
Est. sales 4,833. Wed's sales 4,171 Wed's open int. 32,104, -354					
HOGS-Lean (CME) 40,000 lbs., cents per lb.					
Aug 08	79.07	80.62	78.97	79.62	+7.5
Oct 08	72.80	75.15	72.80	74.35	+1.80
Dec 08	74.70	76.57	74.60	75.90	+1.48
Feb 09	81.45	83.00	81.45	82.60	+1.20
Est. sales 20,211. Wed's sales 23,855 Wed's open int. 228,223, -4,015					
PORK BELLIES (CME) 40,000 lbs., cents per lb.					
Aug 08	71.00	71.80	68.50	68.50	-1.50
Feb 09	91.25	92.00	90.90	92.00	