

BUSINESS & FINANCE

EDITOR MARGARET O'BRIEN • 901-2568

SUNDAY, JUNE 22, 1997 • PAGE 1 SECTION E

Here's all you want to know about risk

Editor's note: This is the second of a seven-part series on investment planning. Next week's column will discuss the Sharpe ratio.

RISK. This is the most important word in the lexicon of every serious investor. And yet, because it dampens the enthusiasm of even the most up-beat investor, few investors discuss it—and never after sundown.

Here is a typical scenario: Without exception, before buying a major fund most serious investors examine the fund's 1-, 3-, 5-, and (if available) 10-year returns. All financial magazines (Money magazine, Business Week, Kiplinger's magazine, Forbes, Fortune, Morningstar) diligently publish these returns on a regular basis. And yet, few investors pay attention to the sections that identify risks associated with these returns. Unfortunately, looking at mutual fund returns without adjusting for risk is fraught with danger and can spell disaster.

Measure of risk

Risk is a far more complicated concept than return, simply because the former does not lend itself to a simple measure. However, if you are a serious investor, you must objectively deal with risk. Here, now, are two measures of risk with which you should become familiar.

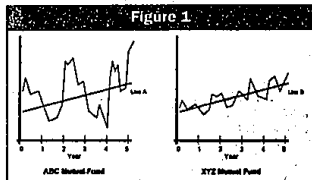
A. Standard Deviation

Risk, or variability, of the stock's or mutual fund's return is measured by standard deviation. Figure 1 presents the prices of ABC and XYZ mutual funds over a 5-year period. If you draw line A (called least squares line) that minimizes the total vertical distance between individual points that make up the curve and the line, and repeat the exercise to complete line B, you will discover two important facts: (1) The slopes (or elevation) of both lines are identical. (2) ABC fund has fluctuated much more than XYZ fund; therefore the standard deviation (roughly, a kind of average distance between the line and individual points) of ABC is much higher than that of XYZ. This implies that ABC investors have taken a bumpy ride than their XYZ counterparts to get to the same place. So, the inevitable conclusion is that ABC investors were not rewarded for assuming higher risks.

Put differently, think of risk as the price you pay for fund performance. The more risk you assume, the higher the return you should expect in the long run. Thus, for example, it may be possible to conclude that the 12.3 percent annual return delivered in the 3 years that ended January 1, 1997 by NEI fund is more impressive than the 16 percent return posted over the same period by the much riskier MMS fund. You can obtain standard deviations of mutual funds from Morningstar.

Incidentally, standard deviation has another interpretive quality: two-thirds of the fund's return is expected to fall between the average return plus-and-minus two standard deviations (Figure 2). So, if the fund's average return is 12 percent and its standard deviation is 2 percent, then over time the fund is likely to return 12 per-

See MITTRA, E4



Sid Mittra, Ph.D., CFP, is professor emeritus of finance, at Oakland University, and owner of Mittra & Associates, a Troy financial consulting firm. This column was critically reviewed by Professor Jerald Grossman of OU. You can e-mail questions or comments to Sid Mittra at smittra@oakland.edu.

Oakland airline lets companies share



Companies don't have to buy their own planes to have instant transportation for business trips and meetings; they can buy a share of Oakland County based Tradewinds Aviation.

BY RABE PERT TEMPLTON
SPECIAL WRITER

If you are a busy business executive who travels frequently, wants exception service and safety without the headache of your own in-house corporate airline Tradewinds Aviation has a solution for you.

Tradewinds, based out of Oakland County International Airport, has a unique program that allows fractional ownership of corporate aircraft that are fully equipped state-of-the-art private jets partners have available to them 24 hours a day.

The company began offering its Corporate Eagle Fractional Program three years ago. They currently have 14 clients who participate in either 1/3 shares of a Raytheon Hawker 700 business jet or 1/4 share of a Beechcraft King Air 200 propjet.

Richard M. Nini was a corporate pilot in the '80s when he decided to establish his own firm, Tradewinds Aviation. Nini, who is president of the company, spent nine years involved in the management of corporate aircraft before opening its fractional owners division, Corporate Eagle, in 1994.

"We had three companies sharing one airplane but I noticed that none of the companies were getting full use of the plane, the pilots or the crew," said Nini. "That's when we decided to offer a program that would give more corporations a share of the corporate aircraft and the savings would allow more utilization of the equipment."

Today, Corporate Eagle partners

share in the use of six airplanes based at Tradewinds headquarters at the Oakland Airport in Waterford. The aircraft are all painted identically, the interiors are basically the same and special items favored by a particular partner are always placed on board prior to their flight.

"If the partner is not on their own actual aircraft they don't mind it because everything is so similar," said Nini. "And they just like seeing the consistency of a quality airplane and the same flight crew that they recognize."

Arranging a flight is as simple as calling the dispatch station at Tradewinds headquarters. A quick review of flight schedules sets the partners travel plans in motion. They can request ground transportation for departure and arrivals, whether it be renting a car or limousine. Special requests for guests on board or even hotel reservations at the destination are all handled by Tradewinds personally.

"We are a completely turn key operation our partners even have the names and home phone numbers of the pilots," said Nini. "So if they are adding a passenger, or running late that morning or just want a weather report they just give them a call."

Partners are also given door to door service or if they have their own automobile at the airport it is cleaned and filled with gas by the time they return home.

See FLYING, E4



Flying high: Tradewinds Aviation president Richard Nini began offering the Corporate Eagle program, which allows companies to buy shares in the six aircraft to keep costs lower, in 1994.

Unemployment rate continues to drop

Michigan's unemployment rate continued its descent into record low territory in May, as the state's jobless rate fell to 4.9 percent in January," Doug Stites, acting MESA director, reported.

Michigan's May unemployment rate is the lowest since MESA began using seasonally adjusted estimates in 1970.

It is also the third time this year the unemployment rate has dropped to

a new low. The jobless total dipped below 200,000 in May, falling to 197,000, down by 16,000 from April, when the rate was 4.4 percent.

The number of unemployed is at its lowest level since 1970, when 185,000 were off the job in April 1973. The current total is also down 37,000 from May 1996, when the jobless rate was

4.9 percent. "While our unemployment rate reached a new low, employment across the state climbed to a new high," Stites said.

"Some 15,000 more workers found jobs in May, pushing total employment to a record 4,676,000 and smashing the previous high of 4,672,000 set in March."

See UNEMPLOYMENT, E2

Kmart moves executives and creates home product category

Kmart Corporation announced a series of executive moves last week in its merchandising and operations organization, including the creation of a new home product category.

With the new structure, all softlines and hardlines products for the home will now be under the leadership of Andrew A. Giancamilli, Senior Vice President and GMM, Home and Consumables.

In this new post, Giancamilli will oversee home fashions, including the popular Martha Stewart Everyday product line, and jewelry, in addition to his existing responsibilities for housewares, consumables, commodities, cosmetics, electronics, music and video.

Also effective immediately, Jerome J. Kusko, is promoted to Senior Vice President and GMM, Health and Beauty Care/Pharmacy. Giancamilli, Kusko and William N. Anderson, Senior Vice President and GMM, Hardlines, all report directly to Warren Plick, President and Chief Operating Officer, U.S. Kmart Stores.

Judson recognizes Franklin Bank with award

Franklin Bank was recently selected "Outstanding Corporation of the Year" for its contributions to the Judson Center and the community as a whole.

Franklin was recommended by the Judson Center Development Committee with the final endorsement and approval by the Judson Board of Trustees.

The Judson Center, based in Royal Oak, is a private agency devoted to the welfare of children and families in southeastern Michigan. This is the sixth year the Judson Center has honored local community contributors.

Through its offices and facilities,

the Judson Center services families in Wayne, Oakland, Macomb, Washtenaw and Kalamazoo counties. Past award winners include General Motors Corporation, EDS, Comerica and First Chicago NBD.

Franklin Chairman David F. Simon accepted the honors at the Judson Center's Annual Celebration Dinner June 5 at the Community House of Birmingham.

"There is certainly no shortage of worthwhile organizations and causes in need of support," explained Chairman Simon. "Judson is a leader in innovative children and family assistance programs, and we are proud to be a small part of the

Judson family.

Franklin seeks to leverage our financial contributions with hands-on community involvement," Simon continued. The Judson award recognizes corporate contributions, both monetary and voluntary, which have the most significant impact in the community.

Franklin Bank, at \$48.1 million in assets, has its executive offices, business center and one regional branch in Southfield, with additional regional branches in Birmingham and Grosse Pointe Woods. Visit the Bank's award winning website at <http://www.franklinbank.com>.

This column highlights promotions, transfers, hirings and other key personnel moves within the Oakland County business community. Send a brief biographical summary—including the towns of residency and employment and a photo, if desired, to: Business Milestones, Observer & Eccentric Newspapers, 805 E. Maple, Birmingham, MI 48009. Our fax number is (810) 644-1314.

Douglas Antor of Birmingham was promoted to senior account executive at Southfield-based Caponigro Public Relations, Inc. Antor's work involves strategic implementation of public relations, contributing to the firm's new business initiatives and updating and maintaining the company's web site.

Miriam Blanks-Smart of Southfield, who practices law out of Detroit and Birmingham, was appointed public relations coordinator for Wayne County. Blanks-Smart was named as 1996 recipient of the Dow Chemical Company's prestigious Pinnacle Award in recognition of outstanding achievements for North American sales efforts. Blanks joined the Midland-based firm in 1984 and currently serves as account manager, Dow automotive in Detroit.

BUSINESS MILESTONES

Smart will be responsible for administering no-hair and other estates in Probate Court.

David Brody, P.E., of Southfield was selected as the 1997 Outstanding Civil Engineer of the Year by the Southeastern Michigan Branch of the American Society of Civil Engineers. Brody retired last December after 46 years with Bloomfield Township-based Hubbel, Roth & Clark, Inc.

Patrick Carey of Birmingham was named assistant general counsel and assistant secretary of Romulus-based Hayes Wheels International, Inc. Prior to this appointment, Carey served the Detroit-based law firm of Timmis & Imman.

A. Wayne Davis was appointed director of training and personnel development at Farmington Hills-based Burns & Wilcox Ltd. Davis will administer the firm's underwriting training program and travel among the 38 offices across the United States to keep employees abreast of industry developments and sales techniques.

Suzanne Hooley of Beverly Hills joined Troy-based Stone, August, Baker & Co. as senior account executive on the Valente Inc. and other business-to-business accounts. Hooley previously worked as a marketing

services specialist for Troy-based ITW Balance Engineering.

Keith Forester of Birmingham was promoted to vice president-sales for Southfield-based Lear Corp.'s Chrysler Division. Forester most recently served the firm as director of sales for the Chrysler Division.

Dick Howting of Bloomfield Hills was appointed executive vice president, global creative director, Ford Global Business Unit at Detroit-based J. Walter Thompson Company.

Howting is responsible for advising and counseling on all Ford domestic and international creative work and is a member of the Thompson Worldwide board of directors.

Frank Marra of Bloomfield Hills was selected for induction into the Plastics Hall of Fame by Plastics Academy, Inc. Marra is best known for his work as the former C.E.O. of Madison Heights-based D-M-E Company. He is currently a consultant on international technology exchange.

David Knipper of Farmington Hills was named Outstanding Adjunct Professor for 1996-97 at Oakland Community College.

See MILESTONES, E2