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Did you know?

As water reflects a face, so a man's heart reflects the man.

Solomon
(PRO 27:19)

In This Issue

- Character and Capability-Key to Management
- The Need for Investment Courage
- Character and Capability—Key to Justice

Services

- Strategic planning and facilitation
- Mergers and acquisitions
- Business valuations
- Business analysis
- Business plans
- Investments
- Investment strategies
- Financial planning
- Personnel assessments

By Gerald R. Chester, Ph. D.

Character and Capability - Key to Management

Over the past few months, we have witnessed a virtual melt down in trust in corporate America. All too many of our once venerated executive officers of publicly-held companies proved to be people worthy of prison not praise. Supporting the charade was a bevy of self-serving financial professionals who played investors as patsies. Adding insult to injury was the seeming blindness, and in some cases complicity, of the accounting profession. In the end, this deception backfired revealing that these once revered people were not trustworthy at all.

How did this debacle happen? Aren't senior executives supposed to work for the interests of the shareholders? How could investment professionals lie to investors? Isn't the accounting profession known for its impeccable veracity? Isn't America the land where

truth, liberty and justice prevail?

Senior executives, investment professionals, and accountants serve as fiduciaries. Two things are required of a fiduciary, namely, trust (i.e., character) and skill (i.e., capability). Trust means that the fiduciary subordinates his or her own interest to the interest of those served. Coupled to this, the fiduciary must exercise good judgment in carrying out the required duties.

It would appear that our public protagonists have failed on both points. They have proven neither to be people of worthy of trust or wise judgments.

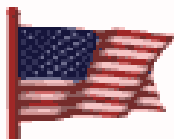
Much to our chagrin, we ordinary people have learned this after the fact and have suffered much loss financially. In the future, would it not be wise to better to screen our public fiduciaries?

The Need for Investment Courage

Financial investments over the past two years have presented investors and their advisors with an on going conundrum. Despite repeated claims that the economic indicators are showing an improving economy, the financial markets continue to languish. No one knows where the bottom is, when we will recover, or how fast we will recover. So what does an investor do? A number of investors have fled to bonds and REITs (real estate investment trusts). In July, equity mu-

tual funds experienced a record net outflow as dollars were moved into bond funds. Conventional investment wisdom opposes following the herd. Could it be that a few years from now, we will look back on this time period and realize that equities of good companies were on sale? When Harry Sinclair, the founder of Sinclair Oil Company, was asked how he made so much money, he reportedly said, "I buy when everyone is selling and sell when everyone is buying".

Character and Capability—Key To Justice



Recently I had the opportunity to serve as an expert witness in a court case. Naively, I approached the assignment assuming that justice would be served if truth was discovered and wisdom applied. The case was a complex matter involving the conduct of parties on a construction project. I felt very qualified to make a determination as to what really happened since I grew up around construction work and spent over 10 years of my professional career in the business. I went about my investigation very systematically talking with relevant parties, reviewing documents, and even walking the now completed job site. Expecting to find a divergence of facts, I was utterly amazed when I found the opposite. I kept asking myself, what I am missing? How could all the facts lineup so beautifully and yet there be a dispute? I am well aware that there are always two sides to any conflict; hence, I attended the trial and heard every witness. This allowed me to be sure that I heard both sides. The trial brought out no new facts. My conclusion was clear; however, I was not the jury. The jury was composed of men and women, who, I am told, had no construction experience or training. Our judicial system calls this a jury of peers. What is a peer? A wise man once told his son-in-law, Moses, that he needed to select some people to help him settle disputes among the Israelites as the burden was getting to great for Moses to handle alone. Moses's father-in-law gave him a twofold criteria to qualify those selected to help, namely, character and capability (i.e., wisdom). One possible definition of a peer is one who has the character and capability to make a sound judgment based on the facts. Does our judicial system seek to fill jury panels with people who have character and capability to make sound judgments based on truth? Having served on two juries and as an expert witness, I am hard pressed to see how the juries that I have seen can be called a jury of peers. In all of these cases, character was defined as being a county resident and a non-felon, and there was no process to select jurors who had the capability to reach a just verdict. How can we claim that our judicial system administers justice? If I had a dispute, I would not have confidence that the juries that I have seen would be mature and wise enough to comprehend the facts, apply sound judgment, and render a just verdict. Would you? Oh, you want to know what happened in the court case? I can't explain it. It is beyond reason and explanation.

Your comments and questions are invited!!!

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services with wisdom and integrity.

Since 1987, Dr. Gerald R. Chester has been providing business and financial advisory services to clients. After receiving his Ph.D. in physics, Gerald moved quickly from the research lab into management. From 1978 to 1985, he managed his family's business, which prospered while growing at an average annual rate of 20%. As a business and financial advisor, Gerald utilizes his rigorous technical education and hands-on management experience to serve his many clients with seasoned balanced judgment. His clients appreciate and value his experience and wisdom in both business and financial matters. Gerald's focus includes strategic planning, business analysis, business valuations, business plans, mergers and acquisitions, financial planning, investment strategies, investments, and personnel assessments. The Newsletter, *Gleanings*, is intended to provide a venue to share the insight and wisdom gained over the years working with dozens of businesses and organizations.

Gerald is a registered investment advisor.

