Investment GUIDE with Eric Tyson –

Questions & Answers for Financial Success

Annual Reports

Q I've read company annual reports, but they seem to include a lot of fluff and gloss from the company. Where can I find more meat?

A 10-Ks are expanded versions of an annual report. Most investment professionals read the 10-K instead of the annual report because the 10-K contains lots of data and business descriptions not included in annual reports, but with little of the verbal hype sometimes found in annual reports.

The 10-K is probably one of the most objective reports that a company publishes. If you're not intimidated by annual reports or you want more meat, by all means read them. 10-Qs provide information similar to the 10-K but on a quarterly basis. 10-Qs are worthwhile if you like to read a reasonably detailed discussion by management about the latest business and financial developments at the company. The financial data in these reports is unaudited and not of great use for the long-term investor. If you want to watch your investments like a hawk and try to be among the first to detect indications of financial problems (easier said than done), then these are required reading.

Many companies go back to restate their quarterly financials. Remember that the accountants haven't approved these numbers. Sometimes, companies take their financial lump in one quarter to get problems behind them, so one bad quarter doesn't necessarily indicate a bad long-term trend. You can obtain these additional company reports either through investor-relations departments of companies (often accessible through firms' Web sites) or through the Securities and Exchange Commission's Web site (www.sec.gov).

Oil Prices

Q Regarding your recent article on oil prices and the offshore oil ban, the truth is that very few real economists attributed the drop in oil prices to President Bush's lifting of the offshore oil drilling announcement. Almost all said it was due to the U.S. economy itself, especially the fear of a recession. If you don't have money, you can't buy gas.

A If fear and talk of a recession had the impact on oil prices that you suggest, how do you explain the explosive rise in oil prices late last year and through the first half of this year, when there was extensive talk and hand-wringing over a likely or possible recession? Prices nearly doubled from $75 per barrel to just under $150 per barrel during these nine months!

If you examine surveys of economists, you will see that the expectations of a recession were at high levels in the fourth quarter of last year and the first and second quarters of this year. You can see this for yourself among folks betting on a recession on Intrade.com, where there was about a 50 percent level of a probability of a recession later last year and about 75 percent in the first half of this year. That probability has now plunged to just 23 percent.

High prices inevitably cure themselves, because they lead to changes in consumer behavior. As oil prices spiraled higher, it garnered lots of attention, and consumers, businesses, and government entities got much more focused on conservation. An example is the number of vehicle miles driven, which has been falling by several percentages in recent months. There's no doubt that conservation has finally dampened demand and prices.

Oil futures markets also are impacted by expectations for future oil supply and demand. For example, it has been widely forecast that a possible Middle East war involving Iran could cause a rapid rise in oil prices due to the expectation of possibly reduced oil supplies. Likewise, a serious possibility of the lifting of drilling bans in the U.S. outer continental shelf and in the Arctic National Wildlife Refuge has contributed to the fall in oil prices this summer. Like him or not, President Bush got this discussion rolling when he lifted the executive order banning additional offshore oil and gas drilling.

Income Tax Rate

Q While watching a business cable network, I heard a lot of discussion about the corporate income tax rate in the United States. One expert said our rate is quite high. Is that true? Does our rate really matter?

A The U.S. corporate income tax rate is quite high. In fact, among the 30 member nations of the Organization for Economic Cooperation and Development, the U.S. has the second-highest corporate tax rate. Our tax rate is 39.3 percent. The average is 26.6 percent – Japan is highest, at 39.5 percent. Corporations, especially larger ones, can choose where to locate. High corporate tax rates drive business away to lower-taxed domiciles. According to a recent study by the OECD, they found that corporate taxes were the most harmful of various taxing options (individual, consumption, etc.) toward economic growth.

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*Eric Tyson is a best-selling author (*Personal Finance for Dummies, Investing for Dummies, Mutual Funds for Dummies, Home Buying for Dummies*). He is read by more than four million people nationwide. A management consultant to Fortune 500 financial service firms, he also founded a counseling firm providing financial advice to non-wealthy investors, teaching that "one must live within one's means as a prerequisite to building wealth."*