SUNDAY MONEY

Olana Khan

Participants in Philanthropy Workshop West, a training program for philanthropists, visited an area near the Virunga Mountains in Rwanda this month to learn about community programs.

GIVING

Write a Check? The New Philanthropist Goes Further

By JULIE BICK

MANY wealthy Americans are no longer content to bequeath their money to favorite causes in their wills. Instead, they are creating a strategic plan for charitable gifts, to be carried out in their lifetime. They are choosing the problem they want to help solve, researching how best to solve it and involving themselves and their families deeply in the effort.

It's not just Bill and Melinda Gates making fact-finding trips to Africa and meeting with Nobel laureates. Thousands of donors are thinking beyond "checkbook philanthropy" by creating family charitable foundations, visiting places that would benefit from donations or meeting with experts to discuss how to invest their charitable portfolio.

Donors are showing more focus, more urgency and a desire for more involvement in their giving, compared with their predecessors, according to Melissa A. Berman, president and chief executive of Rockefeller Philanthropy Advisors, based in New York.

Some donors may give impulsively, said Dianna Smiley of the National Center for Family Philanthropy, based in Washington. If those gifts turn out to be ineffective, the givers can "get turned off to philanthropy," she said.

Seven years ago, Bill Unger left his position as a partner at the Mayfield Fund, a venture capital firm in Silicon Valley, to devote more time to philanthropic endeavors. Initially, he "wanted to give money to everything because there were so many good causes," he said.

"But I didn't have a central philosophy or compass to help me decide where to give," he said, "and I just ended up feeling guilty over who was left out."

To educate himself, Mr. Unger participated in the Philanthropy Workshop West, a four-week formal training program created in 2001 for emerging philanthropists by the William and Flora Hewlett Foundation, the TOSA Foundation and the Rockefeller Foundation.

The workshop helped him to home in on what he cared about most and to recognize how he could best contribute his money, energy and expertise, he said. Today his philanthropic endeavors are still diverse — they include a documentary film and a seat on the board of a large international aid agency. But he said he could see the common thread among them, and how he could share best practices between the organizations.

More donors are trying to get greater meaning from their money.

Juliette Gimon, a family board member of the Hewlett foundation who also took the Philanthropy Workshop West course, said it helped her understand a range of giving strategies.

A variety of resources have been developed to help donors like Mr. Unger and Ms. Gimon define their approaches. Dedicated philanthropic coaches can help determine charitable goals and map out a client's desired legacy. Private bankers and financial service companies like **JPMorgan Chase, Wells Fargo, Schwab** and **Fidelity Investments** have added philanthropic advice and instruments to their repertoire.

Exchanging ideas with other donors, both casually and through organizations like the Global Philanthropists Circle (www.synergos.org/philanthropistscircle), based in New York, can offer additional learning opportunities, Ms. Gimon said. These include frank discussions of experiences, as well as the challenges associated with giving away money.

Social Venture Partners International (svpi.org), which aims to help nonprofit organizations and to educate philanthropists, arranges classes and matches volunteers with projects and peer networking opportunities through its affiliates in 23 North American cities.

Whether the expertise comes through classes, specialists or peers, "there is incredible potential, so you want to make sure you educate yourself and do it right," Ms. Gimon said.

One-on-one meetings with professional philanthropic advisers sometimes help donors to broaden their philanthropic view beyond the typical gifts to alumni organizations and local cultural events.

"It's great to make gifts of gratitude to the institutions and organizations that helped get you where you are, but that's looking in the past," said Jay Steenhuysen, creator of Philanthropy Coach (myphilanthropycoach.com). "Successful people should also look forward at what kind of world they want to help create."

Advisers may help take stock of the world's troubles — like child abuse, habitat destruction and the spread of AIDS — and then work to direct a donor's money toward what he or she is most passionate about. Others will draw out the donor's values and world view to develop a philanthropic mission statement. This may be followed by the creation of guidelines and an annual giving plan.

An adviser might also help a client decide among three popular financial instruments: the family foundation, the donor-advised fund and the supporting organization. The three vary in terms of control of investment, disbursement of funds, tax implications and other areas. Those vehicles, along with others in the philanthropy encyclopedia — like annuities, bequests and charitable remainder trusts — can leave even savvy businesspeople in need of a guide.

Many use a combination of resources to do the most good. Frank Minton, president of Planned Giving Services in Seattle, who has worked with donors for more than 25 years, says the goal is to "find the right organizations, give the rights assets at the right time, using the right financial instruments."

Advisers can also connect donors to people working at the grass-roots level of issues. William Graustein wanted to carry on the work his father had started with his charitable foundation in Connecticut, the William Caspar Graustein Memorial Fund (wcgmf.org). Mr. Graustein teamed up with a philanthropic adviser for interviews with people who worked with children or on their behalf to improve their schools.

The passion and dedication that came through those conversations "were life-changing events for me," Mr. Graustein said. They helped him to realize the challenges of his own father's path from the son of a poor immigrant to business owner.

Mr. Graustein said he became even more dedicated to helping others gain the same opportunities through education. More than charts or statistics, he said, the personal testimonies were "a richer, deeper way of understanding the problem and possibilities, and what our impact and role could be."

Some donors now plan and evaluate their giving with the same rigor that they use in their commercial financial investments. They establish goals and seek out institutions that are efficient and effective at meeting them. After investing, they measure the success and then readjust their portfolio.

Organizations like Rockefeller Philanthropy Advisors (Rockpa.org) or Geneva Global (Genevaglobal.com) help donors through all these steps. "It's our firm belief that you don't experience the full joy of giving until you know what your giving accomplished," said Steve Beck, chief executive of Geneva Global.

PHILANTHROPIC education can involve more than one generation of a family. Research has shown that the earlier children are included in a family's charitable works, the more they will maintain it as a lifelong interest.

"Donors are including the family for so many reasons," said Ms. Smiley of the National Center for Family Philanthropy. "They want to share their values, they want to give their children a feeling of social responsibility and they want to keep the family legacy going strong."

With more millionaires than ever in the United States, the trend is not expected to wane.

"When you want your money to grow, you go to your banker; for taxes, you go to your accountant," Ms. Gimon said. "When you want the most impact for your philanthropy, you also need an expert to help you."

Mr. Unger agreed that learning from others had helped him become a more effective donor.

"I used to be reactive — to the news, to friends, to whatever problem caught my attention," he said. "Now I'm proactive. I seek out opportunities where the Venn diagram of my interest, my expertise and the problem that needs help all overlap." □

STRATEGIES

MARK HULBERT

Beyond the Bubble, With Small-Cap Stocks

SMALL-CAP stocks are significantly overvalued. In fact, they are even pricier, on average, than they were in March 2000, just before the Internet bubble burst. In contrast, the average large-cap stock is moderately undervalued.

This picture of a highly bifurcated stock market is painted by data from Ford Equity Research of San Diego, which tracks around 4,500 publicly traded companies in the United States. Among companies that have been publicly traded for at least seven years, the firm reports that 55 percent have higher price-to-earnings ratios today than they did in March 2000. The bulk of these pricier issues, however, are in the smaller-cap sectors. Among the very largest companies, the average P/E ratio is now just a third of what it was seven years ago.

If investors focused only on the broad stock market averages, however, they might conclude that the entire market is undervalued. According to Standard & Poor's, for example, the P/E ratio of the S.& P. 500 currently stands at 17, based on trailing 12-month operating earnings. The comparable ratio at the end of March 2000 was 31.1, almost double the current level.

Though the S.& P 500 includes many large-cap stocks, it also contains smaller-cap issues. Why is the index's P/E ratio nevertheless so much lower than it was seven years ago?

The answer lies in how the index is put together. The S.& P. 500 is a capitalization-weighted index, meaning that each company's contribution to it is a function of the company's size. That would not necessarily skew the average P/E ratio for the index itself, if the average valuations of both larger and smaller stocks were similar. But that's not the situation today, according to Ford Equity Research: the 50 companies in the S.& P. 500 with the smallest market caps have an average P/E ratio that is much higher than it was seven years ago, while the ratio for the 50 largest-cap stocks in the index is significantly lower.

According to Ford Equity Research, the average P/E ratio among the 50 largest-cap companies is now 19, about a third of the average of 60.7 for the biggest 50 in March 2000. The average market cap for the 50 largest companies is now $123 billion, versus $153 billion in March 2000.

Contrast those numbers with those for the 50 smallest companies in the index: their average P/E ratio is now 30.7, versus 20.3 seven years ago. And their average market cap is now $3 billion, versus $1 billion.

In other words, the smallest-cap stocks in the S.& P. 500 are significantly more overvalued today than they were seven years ago. Yet their higher P/E ratios barely affect the ratio for the index as a whole. That's because the combined market capitalization of the 50 largest stocks account for nearly half the market cap of the entire S.& P. 500, while that of the 50 smallest stocks add up to just 1.2 percent of the total.

"Investors who pay attention to the P/E ratio of cap-weighted indexes such as the S.& P. 500 therefore need to exercise great care when drawing conclusions about stocks' relative valuations," Richard Segarra, director of research at Ford Equity Research, said in an interview. "At best, the P/E ratios for such indexes shed light only on their largest-cap stocks; we should avoid drawing any inference from a cap-weighted index's P/E ratio about the valuations of its smallest-cap members."

MR. SEGARRA found that the index's prevailing pattern also holds true across the universe of stocks that his firm tracks. As a result, an investor who emphasizes market sectors according to relative P/E ratios would have a very different portfolio today than in March 2000. Back then, he would have favored small caps over large caps — and been handsomely rewarded for this choice. The trend is seen in the annualized total returns since March 31, 2000, of three Dow Jones Wilshire indexes: 10.1 percent for the U.S. Microcap Index and 7.2 percent for the U.S. Small-Cap Index, but only 0.5 percent for the U.S. Large-Cap index.

Today, however, according to Mr. Segarra, that investor would favor large caps over small caps. Not only is the average P/E ratio of large-cap stocks only a third as high as it was in March 2000, it is nearly 10 percent below its average level of the last five years. There's no guarantee, of course, that large caps will outperform small caps over the next five years — but there's a good argument to be made that they will. □

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Ratio Reversal

The average price-to-earnings ratio for large-cap stocks is now much lower than that for small-cap stocks. That is the reverse of the situation at the March 2000 market top.

Stocks in the Standard & Poor's Composite 1500 separated into deciles according to company size

Source: Ford Equity Research

The New York Times