

# Dear Fellow SHAREHOLDERS,

March 2016

## The Battle of the Proverbs

As the cover illustrates, there is no shortage of sage proverbs that embody the wisdom of the ages. So how is it that so many contradict each other? Which one is right and which one is wrong?

The inspiration for listing some of the many contradicting proverbs on the cover of this year's Annual Report stems from the challenge we are experiencing as the Company grows.

On one hand, we recognize the wisdom in "sticking to your knitting" or "do what you do best" or "focus on your core competencies."

On the other hand, we recognize that as the business grows and times change, we need to evolve our business. "Nothing remains constant except change itself." One of my favorite quotes on change is by Robert C. Gallagher; "Change is inevitable; except from a vending machine."

## Diversification vs. "Diworsification"

We recognize that as the business grows, the need to diversify our business grows as well. If we are able to do it correctly, diversification has the potential to decrease the vulnerability of our business and volatility in our investment performance by "not putting all our eggs in one basket."

On the other hand, if not done wisely, diversification can end up being "diworsification," a term coined by the legendary investor Peter Lynch. This happens when a business diversifies too widely, thereby destroying their original business because the Company's time, energy and resources are diverted from the core business that initially made them great.

As you read through this year's Annual Report we hope you will notice the ways we are **diversifying** our business. Only time will tell if all of these are beneficial but we believe they will be (or we wouldn't be doing them!).

## 2015: A Year of Challenges; A Year of Successes

The year 2015 was both a challenging and successful year for several reasons.

### A Year of Challenges

Last year we experienced a sudden and tragic loss when Randal Jones, our Controller and 27-year long employee passed away from a massive heart attack on April 21, 2015. Randy was a member of the Executive Management Team and definitely a key member of our team. He will long be missed by all of us and impossible to replace. Our sincerest sorrow and support go out to his wife and children.



Randal Jones, Controller  
Apr 14, 1957 - Apr 21, 2015

It was not an easy task to find someone capable of assuming the responsibilities of such a key employee with such specialized and technical industry accounting

knowledge. It became doubly difficult when soon after Randy's passing, Lei Lei, the other half of our two-person accounting team, had a family emergency that took her back to China to care for her parents full-time. In two short months we went from a smooth running Accounting Department to no Accounting Department at all.

It took several months and two tries to finally find the right person who was qualified to assume our Controller responsibilities. Her name is Brandi Murobayashi and she was able to bring our Accounting Department up to speed and properly functioning in short order. She is performing exceptionally well and we really couldn't be more pleased with her brilliant mind, tremendous capabilities and diligent work ethic. We have also hired an Assistant Controller, Robert Messick, who likewise is excelling. So finally, after a very challenging year, we once again have a first class accounting team!

Another challenge last year was that we began the year with an unusually large amount of loan payoffs and annuity sales while having lackluster loan originations the first half of the year. This imbalance resulted in our retaining on average \$8 million of idle cash not earning income during the first six months. The second half of the year our lending took off and we were able to get most of our excess cash lent out, but alas, the damage was already done. For the entire year we had an average of \$4 million more in cash than optimal, which resulted in approximately \$400,000 less interest income for the year than if they had been timely invested.

### A Year of Successes

The **expansion of our lending** into five other Southwest states continued to develop in 2015. In fact, 82% of the loans we funded in 2015 were in states other than our home state of Arizona (see the graph on page 10). Our success in diversifying our lending into these other states also boosted our 2015 loan originations to a record level of \$16 million. It is also helping us achieve **our goal to diversify** our mortgages beyond just the Phoenix real estate market. (See pages 10 and 11 for a more detailed report of our mortgage business.)

We were also successful in selling **our two new annuity products**: IRA annuities and our B.E.S.T. Income Annuities. With 64% of all Income Annuities sold in 2015 being IRA annuities, it is clear that the introduction of our IRA annuities is helping us toward **our goal to diversify** our annuity business by growing our income annuities to eventually become a significant part of our total annuities.

We also were successful in reducing by 30% (\$1,145,000) our Real Estate Owned (other than our home office) by selling five properties we had previously acquired through foreclosure. (See page 12 for further information on our real estate sales.)

### First 2016 Semi-Annual Dividend Declared

The Board of Directors has declared a **12¢ per share** semi-annual dividend to be paid on April 8, 2016 to shareholders of record as of March 31, 2016. This is equivalent to an annualized **dividend yield of 6.3%**.

The Board intends to declare the second semi-annual dividend in August, to be paid in October. The year 2016 will be the 34th consecutive year that we have paid cash dividends. Over these 34 years the dividends have increased an average of 5.3% per year.

### 2016 and Beyond: Looking Good!

This year is starting out strong with nearly \$40 million in mortgage loans and our measured growth will soon lead us past the \$60 million mark of Total Assets. We are striving to **diversify** our business in smart ways that complement our core business and improve our long-term stability as we continue to grow our business.

Our growth allows us to **do more good for more people**. We are able to provide more and more retirees with superior annuities that offer greater retirement income. We are likewise able to provide our unique *Not So*

## Letter to Shareholders

*Hard Money*<sup>TM</sup> real estate loans to more business owners and real estate investors. Our profitable growth will also provide for even greater opportunities for success for our agents, our employees, and you, our shareholders.

We know that the Company's long tradition of creating attractive and dependable shareholder returns is a direct result of the superior products and service our dedicated staff provides our customers. We truly have an outstanding team who share a strong commitment to serve our customers.

On behalf of the Board of Directors and the Management Team, I extend my warmest and most sincere "thank you!" to all of our devoted employees and agents, our loyal customers and our supportive shareholders.



Byron Frihoff Allen, President

## Board of Directors



**Back row:** (L-to-R): Steven L. Stapley, Gove L. Allen (legal counsel), David K. Allen, Kurt Tingey (Advisor)

**Front row:** Byron F. Allen, Robert E. Allen (Vice-Pres), F. Grant Allen, Tracy C. Allen, Wilford R. Cardon **Not pictured:** Heber E. Allen