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More Sellers than Buyers

Often the reason behind swings in financial markets is the fact that there exists either "more sellers than buyers" or "more buyers than sellers" of a given investment. Supply and demand factors occasionally become so strong that the underlying fundamental value of the investment is ignored in the process. We believe that this supply and demand thesis is why interest rates are rising when inflation is low.

Basically, the U.S. government is the biggest "seller" of debt (\$4.5 trillion) and, unless we raise interest rates, there are no buyers. Traditionally, the United States found buyers of its debt in Europe, Japan and more recently, our banking system. For various reasons, these three parties are less interested in buying U.S. debt. Complicating matters is the fact that world economic growth is generating competing global debts. We, as a country, must therefore "sweeten the pot" by increasing interest rates to keep our debt machine rolling.

We believe that interest rates may keep rising. Big losers will continue to be speculators and investors in long term bonds (maturities of 15 years or longer). However, intermediate bond funds and individually managed portfolios with short average maturities will be less affected.

Incidentally, many of the shrewdly managed companies we invest in (Disney and Boeing) borrowed money at 50-100 year fixed interest rates six months ago. It is unfortunate that while corpo-

rate America took advantage of low rates during the last year, the U.S. Government was shortening its overall debt maturities which now must be refinanced.

On the equity side, rising interest rates force stock prices lower but create selected buying opportunities. While we believe that moderately higher interest rates may slow domestic economic growth, there will be little effect on global growth. For example, we believe selected growth will continue even if interest rates rise to 10%. Our reasoning is that companies such as Colgate-Palmolive will justify building new toothpaste plants overseas if their after-tax cost of funds is only 6% or 7%. The returns on such foreign expansion are sizable.

We cannot emphasize enough our belief that international growth will be a major positive for the coming decades and strongly recommend that every investor have conservative equity exposure in the international arena.

We use two investment vehicles for accessing international growth opportunities. First, most client equity portfolios are invested directly in large U.S. companies with dominant market shares outside the U.S. Examples include AT&T, Johnson & Johnson, Mobil, General Electric, Boeing, International Flavors and Fragrances and McDonalds. Secondly, we recommend investment in established funds which specialize in conservative international investing. These funds buy shares directly in large foreign companies such as Nestle, Telefonos de Mexico and Royal Dutch Petroleum.

In conclusion, our predictions for higher interest rates over the last year have been accurate. Our investment newsletter of September, 1993 stated "stocks not bonds" and, since that time, stocks have outperformed long bonds. In our view, the worst is over and the benefits of record corporate earnings, increasing dividends and world-wide growth opportunities bode well for selected stocks. We are clearly entering a phase where there will be more "buyers of these stocks than sellers", and that gives us comfort.

Andrew C. Burns

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Hamilton Point Investment Advisors, LLC is a fee-based investment advisory firm suitable for high net worth individuals, not-for-profits, retirement plans and corporations. We welcome comments or questions and can be reached at (877) 636-3765, or e-mail us at aburns@hamilton-point.com.

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