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**“We more frequently require to be reminded,
than informed.” — Samuel Johnson, 1750**

Up until recently, the investment markets have responded positively to low interest rates, bargain basement oil prices and worldwide infatuation with the stock market. Our clients have benefited from years of higher than normal equity returns, but we are cognizant of risks which underpin today's markets. The ever-skittish media “informed” investors that markets have declined 10% from their highs recently, but pointed to few reasons for the drop except to say “Asia”.

In this newsletter, we will attempt to “remind” our clients and friends of the risks we believe face the current market and the ways we attempt to preserve our clients’ capital in this environment.

1. INTEREST RATES – Have we got a deal for you! Lend your money to the U. S. government (strong military and taxing power) for 30 years and receive a 5.64% annual return until the year 2028. Having lived through periods of 14% interest rates, our skeptical investment committee is not nibbling on our client’s behalf in 30 year Treasuries. We are reminded of the mathematical fact that each 1% increase in interest rates causes a 30 year Treasury to lose 14% of its value.

With the domestic economy growing and wages rising, we worry that the Federal Reserve may want to increase interest rates, but is unable to do so for fear of destroying Japan’s otherwise weak financial system. In our view, low interest rates are good, but not if they are grudgingly held low

by the Federal Reserve. Accordingly, we invest our clients’ fixed income portfolios in the highest quality bonds with relatively short maturities.

2. BARGAIN BASEMENT PRICES FOR OIL – We have a sneaking suspicion that we are fresh out of dinosaurs available to die, rot and turn into oil one million years later. In fact, one may ask, why is the price of oil dropping when demand must be growing. Most pundits say that it is because more dinosaurs died than we originally projected. While that may be true, we also suspect that many emerging countries are desperate for hard currency and must sell their oil at low prices to raise cash. We are at a point where it may be in the United States’ interest to encourage higher oil prices in an effort to bolster cash flow to third world countries. Again, oil prices are low, but this may be a short-lived elixir for our “inflation-free” economy.

We have a firm commitment to the supply/demand and inflation-hedge benefits of owning

oil companies. Especially encouraging was the recent British Petroleum takeover of Amoco which reaffirmed the "value" of such holdings.

3. GLOBAL INFATUATION WITH THE STOCK MARKET - Only Beanie Babies have been more popular than stocks over the last few years. Demographic trends, corporate stock buy-backs and the numbing market mantra that "stocks outperform bonds over the long term" have worked their magic for nearly a decade, as the annualized ten year return for Blue Chips now exceeds 18%.

Worth noting is the fact that many investors have unreasonable return expectations. Surveys show that the typical investor expects future annual stock returns of 20%-30% as compared to historical long term returns of 10%-12%. We remind our clients that it is hard for stocks to appreciate much faster than their underlying 10% - 15% growth in earnings and dividends ... and we must expect disappointing periods along the way.

On a related note, we confess to having been stung by Parametric Technologies, Inc., which was added to our Buy List in March of this year. This rapidly growing software company met all of our criteria for profitability, market leadership, balance sheet and management reputation, but the company missed their earnings estimates due to the introduction of a new product. The subsequent significant drop in share price of Parametric humbled us, but served as a reminder of the importance of diversification as the investment represented a small percentage of each client's portfolio. We are holding the stock for now as we evaluate the market for their new product.

4. ASIA/JAPAN - As was pointed out in our earlier conversations about interest rates, Japan is slowly (very slowly) addressing their deep banking and other problems. They currently admit to approximately \$600 Billion in bad bank loans, but the number grows a couple hundred billion with each new leader. We suspect that the Japan issue will be "solved" soon with their own version of the Resolution Trust Company which was used for the U.S. Savings and Loan crisis years ago. Over time, we are hopeful that giant U.S. banks like J. P. Morgan will take advantage of a new, more open banking system by growing their business in Asia.

Our current investment outlook is more cautious than usual. The markets will probably remain weak until Japan solves its credibility and banking issues. Our clients' portfolios are highly diversified among short bonds and in stocks of well-managed companies. As the title of our newsletter indicates, we more frequently need to be reminded (that markets are volatile), than informed.

Andrew C. Burns

President/Chief Investment Officer

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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