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The Sky is Rising! The Sky is Rising!

The Internet is good... very good. With the help of Y2K, Internet usage and associated business opportunities have grown faster than you can say dot.com. A world where essentially all information is readily available and virtually free is probably the most "bullish" notion to ever face capitalism. At Hamilton Point Investment Advisors, LLC, we believe that the catapult for future Internet growth was the Y2K scare and further, we believe that the proliferation in Internet use in the coming decades will make large corporations and the American consumer much wealthier.

There is a certain serendipitous beauty to the arrival of the Y2K problem. The Y2K scare forced industrial companies, schools, individuals, and the telecommunications industry to upgrade their computers "ASAP". What better way to grab the CEO's attention and related budget dollars than a panic of the magnitude threatened by Y2K? A better global technological upgrade than what was witnessed in the last year could not have been planned. As a consequence, most stumbling blocks for using the Internet to its fullest advantage have disappeared.

So how are corporations reacting to the Internet? Well, their approach is simple and focused on reducing costs. For example, large companies have always had "approved lists" of suppliers with whom they maintain close symbiotic relationships. In the coming years, corporations will post their purchasing needs

on a web site for suppliers to submit their "bids". With the aforementioned computer upgrades complete, near "auctions" can be held for the purchase of, say, 10,000 blue plastic "thing-a-ma-bobs" with specific design tolerances that can be downloaded in 3D! Under this emerging and rapidly growing "auction" methodology, there is less need to design and ship prototypes, fewer traveling salespersons and no paper bills (i.e., direct debit). The impact of this kind of operating philosophy is that those who are "plugged" into the global program have the opportunity to be far more profitable than they ever imagined. Companies that previously targeted a 15% operating profit margin on sales can raise their target to 20%. Moreover, the auction process (or really, the more perfect sharing of information) will cause manufacturing capacity throughout the world to be more fully and optimally utilized. As a

consequence, companies can reduce prices and increase profit! Productivity will remain high, keeping prices low. Wealth will be created.

Along with higher corporate profits will be increased consumer purchasing power. As an example, we believe the total monthly expenditures that consumers currently pay for telephone, cable and Internet services will likely drop by tens of billions of dollars in the aggregate during the coming years. Similarly, books, movies, magazines and music will increasingly be downloaded to hand-held or household devices, saving billions as well. Many traditional distribution systems will be destroyed as consumers and businesses pocket huge sums.

We believe the implications for investors will be significant and primarily positive. We are confident that the potential for earnings growth and profitability for our Buy List of global Blue Chip companies has never been better. Moreover, consumers will be flush with cash to buy their products and stock.

From an investment standpoint, we will continue to avoid companies which we believe will be negatively impacted by the Internet or have money losing ideas which may fascinate

but do not produce cash for shareholders. We will also continue to give our clients broad exposure to technological developments by investing in highly profitable industry leaders. Our holdings will include selected individual issues and broadly diversified mutual funds. Paradoxically, some of today's "hottest" Internet stocks may offer the worst investment returns.

Before signing off, we want to emphasize our point once again. The Internet is as expansive and just about as expensive as the blue sky above. Like the sky, it is wonderful and it is free! Those who implement an Internet strategy (i.e., manufacturers and their customers) will benefit far more than those who are trying to bring those parties together. We never felt better about the profit horizon for the stocks we own and are pleased to sound the alarm, "The Sky is Rising! The Sky is Rising!"

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Hamilton Point Investment Advisors, LLC is a fee-based investment advisory firm which manages portfolios for 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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