

DECEMBER 2001

Lewis & Clark Would Make Great Investment Advisors

People have always asked others for advice. In the early 1800's when Lewis and Clark were traversing America, they surely asked local Native Americans questions such as, "How deep is that river we are about to cross?" Envision the Native American as a Wall Street analyst, and Lewis and Clark as investors. One would expect a straightforward reply from the Native American such as "that river is two feet deep". A foolish frontiersman might then proceed across the river. A wise frontiersman, however, may first ask a follow-up question such as "Is the average depth two feet...or is that the deepest point of the river?"

We constantly ask questions as we position client portfolios in ways that will preserve their capital during difficult periods, and meet or beat major indexes over long periods of time. As the ongoing War on Terrorism unfolds, we are beginning to feel more confident in the answers to our questions about the prospects for a return to growth and positive equity returns. Allow us to address some of the myriad of global/economic issues one by one.

THE WAR ON TERRORISM

In a not so subtle way, the White House is proclaiming that this war is far from over. Additional countries and/or pockets of terrorists are going to be involved for either major or surgical strikes. Some have suggested that Colombia (drug warlord problems) may be targeted next to show the world that we are anti "creeps" not anti "Islam".

As believers in democracy and freedom, we feel strongly that the free world will win the ongoing war. Eventually, many "resource-rich" but "democracy-poor" nations like Iran, Iraq, Saudi Arabia, Pakistan and others may be forced to embrace more open governments. One of our clients remarked that, after all, one could argue that Osama bin Laden is nothing more than a jilted rich kid. He became angry when the Saudi Royal Family and his own 50 brothers wouldn't listen to him when he said oil should be sold to the U.S. for no less than \$80.00/barrel. Were Saudi Arabia a more open society, bin Laden would have had the opportunity to spend his millions on a senate seat, or mayoral position and the world would be a much different place. Seriously, democratic reforms may be the long-term end game in these countries, followed by the creation of a middle class and more peaceful world.

GLOBAL GROWTH

While the War on Terrorism and other factors are causing a recession, we believe this condition will be temporary. In fact, it was wonderful to see Vladimir Putin wearing a cowboy hat in Texas. If memory serves, Nikita Khrushchev never visited Hyannis Port. As terrible as our international troubles are, the fact that the United States is trying to be friendly to the Russian and Chinese people is huge and probably much more important to future growth and peace than terrorist activity.

Anecdotal evidence of continued spending by emerging countries exists. ITT Industries, a post September 11th addition to our Buy List, received a significant order recently for specialized wastewater pumps to be used in Shaoxing, a city of one million people in China. Notably, this is the first wastewater plant in Shaoxing's history. Imagine a city larger than San Francisco that only recently installed wastewater treatment! We believe the opportunity for infrastructure "build-out" in China remains largely ahead of us.

U.S. INDUSTRIAL PRODUCTION

American industry is suffering. Inventories have been "worked down" seemingly forever. Fortunately, our Buy List no longer includes aircraft manufacturers (or airlines) and we can look only to our holdings in Alcoa and General Electric for mild exposure to the commercial aerospace industry.

We believe the industrial sector will improve next year as consumers (see below) remain active and inventories are worked down further. We fear that the suppliers to commercial aerospace may have to wait longer for recovery.

CONSUMER

WalMart had its biggest revenue day on the day after Thanksgiving. Internet sales also beat all previous re-

ords the following Monday. Interest-free loan packages have improved automobile sales. Home heating and gasoline prices are dropping rapidly, while low interest rates are causing massive mortgage refinancings, putting cash in consumer's pockets. Moderate consumer activity, coupled with a sizable government economic stimulus package will likely spur industrial growth next year.

There have been a lot of layoffs. However, some of these have been investment banking types who have tidy nest eggs to live by. Many are simply retiring earlier than originally planned and have the means to do so. The 100 million plus Americans who are still working have been receiving raises of roughly 4%, which more than offsets the dollars associated with those unfortunate enough to be temporarily out of work.

We have been busier than a barbershop in Kabul. The ever-changing investment picture and a concerted effort to diversify our Buy List from roughly 25 names to over 30, has been exhilarating. Our fixed income focus on Treasuries and bonds rated "A" or better is showing its prudence in spades right now. We remain mindful that when it comes to preserving capital, it is not only "what you own" as much as "what you don't own" that matters. We are pleased to report that our clients' objectives have largely been met and we are experiencing a steady flow of new clients.

Given Lewis and Clark's track record, I would hire them as my financial advisors as surely they knew the deepest point of every river before they ventured across. As for advisors who blindly follow your typical Wall Street research analyst, I suggest they bring snorkels next time they go exploring.

Important Disclosure: "It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities discussed in this newsletter."

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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