

FEBRUARY 2005

## India: Democracy, Size XXL

*Any reader of our newsletters over recent years knows the emphasis we place on global growth as a major investment theme. We, and the business press, tend to mention China in this regard when in fact India is also significant. Last year, China's economy grew 9.1% while India's expanded by 6.6%...both of which compare favorably to America's 4.4% growth. With a population of over 1.0 billion people, India is by far the largest democracy on earth and a country that is having meaningful economic impact on the global economy.*

As fortune would have it, one of our newer employees, Sobby Arora, is a native of India and recently visited his family there. We share some notes from him below and conclude our newsletter as bullish as ever.

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Dear Friends:

Greetings! Allow me to share my recent travel experiences to home in India. I joined Strategic after graduating from Colgate University this past summer and it was thrilling to visit family and friends for the first time in two years.

For most of you, a city with 20 million people is tough to imagine, but New Delhi exists on a scale of its own. Delhi traffic can humble most New York City drivers who take pride in their agility on the road. The mix of public transport that includes the world's largest system of buses operat-

ing on Compressed Natural Gas (CNG), freight trucks, cars, scooters, motorbikes, rickshaws, cabs, three wheeled auto-rickshaws, bicycles and the occasional stray animal, can be quite unnerving, especially if one has become used to driving on the other side of the road. New infrastructure in Delhi since my last visit was striking, with the construction of the Metro Subway on full throttle. Merely a few years ago, the plans existed only on paper, and now 18 stations are open for public use and dozens more are under various stages of construction. For 10 rupees, or less than one US quarter, you can ride in a brand new and surprisingly well-maintained Delhi Metro that, for the most part, is above ground and offers an incredible view of the congested but cosmopolitan city.

Seeing Europeans and Americans is quite common in Delhi, as is spotting food chains like McDonalds, Pizza Hut and Domino's. I couldn't stop chuckling after I noticed spiced up food items like a 'Chicken Tikka Burger' on McDonalds' menu.

And yes, all those chains home deliver! Noticing, also, new brands like Chevrolet and Toyota in the very lucrative Indian auto market made apparent the power that the rising middle class with increasing disposable income was exerting on the global economy. Needless to mention, consumer giants from Hamilton Point's Buy List including Coke, Pepsi, Colgate Palmolive, Procter and Gamble and Johnson & Johnson are ubiquitous. It's tough to find a street corner without a local "Paan" shop (small wooden cubbyholes that sell betel leaf, a common mouth freshener that is eaten with catechu and betel nuts) where you can't get your hands on a 200 ml. (6.75 fl. oz.) reusable glass bottle of Coke/Pepsi for a mere 5 rupees.

During my visit I felt an intriguing vibe coming from the stock market. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), an index representing the pulse of the Indian capital markets, is hovering around its all time high, having more than doubled since February of 2003. My father's favorite 'activity' was being glued to CNBC India. The enthusiasm and interest of retail investors in the market was infectious. The explosion of respected, globally-recognized Indian companies has helped drive the bulk of 6%-7% GDP growth rate. This is a secular shift from the primarily agro-driven economy of years past.

Running a billion person economy is no joke, and the left-leaning coalition government has been facing tough challenges working for the people, while keeping the parties that hold together the government appeased. Some state budgets have spiraled out of control but significant value added tax reforms seem to be in sight. On security matters, the 'love thy neighbor' philosophy with Pakistan also works (only) as long as they adopt the same. Fortunately, boundaries have been respected in the recent past. The rising gap between oil production and imports might also see some improvement since, for the first time, the government has allowed foreign oil majors to come and use their expertise for exploration and production.

It was overwhelming to notice all the change, but it is only logical that the imbalance between the developed West and emerging economies like India is being reduced on an ongoing basis. The United States is still the land of opportunity

for many like me, because the economic system works here, the law is respected and the infrastructure is well maintained. Increasingly, however, Indian students, who comprise the biggest contingent of foreign students in this country for undergraduate and graduate studies, are going back home to work, to start businesses and do research.

All in all, the food was delicious, the people friendly and the weather warm (a touch warmer than Upstate New York). The trip was one for the books. Thank you for your faith in what we do here at Strategic and for your time in letting me share my experiences.

Best regards,

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So how do we position investment accounts to take advantage of projected prosperity in places like India or China? Well, we do a number of things. First, growth in emerging countries will probably help keep inflation in check and therefore cause interest rates to remain "relatively" low. This is bullish for stocks and thus our balanced and equity accounts are allocated at the upper limits of recommended equity exposure.

Secondly, we have made a concerted effort through the years to assure that our Buy List of Quality Core Blue Chip stocks is heavily weighted toward companies with global reach. These companies will benefit by manufacturing overseas and/or from selling to emerging consumers and to those handling the build-out of related infrastructure. Notably, the majority of the forty or so companies on our Buy List generate at least 25% of their revenue outside the United States, while one-half of those have at least 50% international exposure. We also augment these core holdings with a global fund that invests throughout the world.

Our view is that relatively low interest rates and global growth will continue. This has been a good environment for investors and one that has

generated solid equity returns and, recently, some of the largest dividend increases we have ever witnessed. Of course, nothing can be guaranteed since issues abound such as high energy prices and a weak dollar, but we remain confident that continued global growth will translate into further positive investment returns.

Your comments and questions are always welcomed.

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."

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