

JULY 2005

J. Wellington Wimpy... Promises, Promises

Despite ongoing challenges presented by the latest financial headlines, we believe the outlook continues to be bright. However, due to the increased use of direct and indirect leverage and borrowings in selected sectors, we sense that an emphasis on quality is more critical than ever to our investment success. From this perspective, the benefit we bring to clients is as much what we prevent them from owning as it is the purchases we make.

First, a few words about some headlines facing investors today. As we consider the problems facing both Social Security and General Motors, for example, we are reminded of the venerable Popeye cartoon character "Wimpy" who made famous his line, "I will gladly pay you Tuesday for a hamburger today." Tuesday never seemed to arrive in the Popeye cartoons, but it has for our Social Security system and General Motors, as they have both promised far more than they can possibly deliver under current circumstances.

Of course, both the government and General Motors could solve their problem by simply increasing revenues. That is, the government could raise taxes and General Motors could charge more for each car. Were it not for a little economic phenomenon known as "global competition," higher taxes and more expensive cars would be a nice solution. Although hotly debated on every front at this time, the cure for Social Security probably lies in a compromise where taxpayers chip in more and retirees make do with a little less than originally promised. For its part, General Motors will probably have to continue to shrink in order to survive. The good news is that the issue of under-funded liabilities of

large corporations and the government is on the table and being discussed very frankly.

This habit of organizations operating with unfunded promises is something we pay particular attention to when selecting individual stocks. The objective of our Global Core Equity Buy List is to produce sound risk-adjusted returns by owning approximately 40 well-managed and continuously profitable companies that have little to no debt. We define debt broadly to include obligations on the balance sheet as well as other "promises." For example, after 9/11 we worried whether property and casualty companies had reserved enough assets for potential claims and, therefore, we reduced our exposure to this industry. In addition, we have never purchased shares of General Motors or Ford, largely because of their excessive debt levels and well-disclosed unfunded promises to retirees.

Before leaving the auto sector discussion, the trouble facing investors in General Motors and Ford bonds is worth noting. These securities have been downgraded to "junk" status and have fallen in price. These organizations are probably "too big to fail" and we believe their finance subsidiaries will ultimately find the funds

to survive. However, our emphasis on buying only those bonds rated "A" or better can be attributed to our having purchased none of these direct corporate obligations for clients.

Another industry which we believe has the potential to fall short is the real estate market. When the speculative portion of the real estate market turns sour, as it inevitably will, we hope that participating investors can afford to meet mortgage obligations, especially if they eventually exceed the underlying values of their investments. Given these worries, our clients have minimal equity exposure to the housing and mortgage sectors. As to what will cause the housing bubble to pop, our suspicion is that a combination of more strict lending criteria (imposed by the Federal Government) and rising real estate taxes will be the catalysts for a correction in selected real estate holdings.

Make no mistake, we take calculated risks for our clients but we recognize that our performance is as much due to protecting the downside as it is positioning for growth. Fortunately for us and our clients, our size affords us the flexibility to put client money to work without having to buy low-quality investments.

As for our investment forecast, we continue to see modest but stable growth in the United States and tremendous opportunity in Asia. We are pleased to see that

inflation remains in check and that interest rates remain low enough to promote growth. Low interest rates are, however, fueling poor investment decisions as well as good ones.

While investment performance can never be guaranteed, we do promise to maintain an emphasis on quality when attempting to preserve our clients' capital and provide for growth. You see, unlike Wimpy, we must plan for every day to be Tuesday.

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."

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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