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The World is “Flat-Out” Growing

I did a great deal of reading over the summer, including two outstanding books, The Pentagon’s New Map and The Elephant and the Dragon. Both were written by experts on modern global affairs and offered “good, bad and ugly” reports and opinions about global military and economic issues. They also provided in-depth insights into the risks associated with global and domestic investing. Both authors confirmed our feelings here at Hamilton Point that the opportunity for global growth has never been better, but that we must prepare for disruptions along the way.

“CONNECTED” VS. “UNCONNECTED”

I found Thomas P.M. Barnett’s, *The Pentagon’s New Map*, fascinating. Barnett is a current professor at the U.S. Naval War College and a former senior analyst for the Secretary of Defense. He argues that the post-Cold War world is now divided into two sectors: the connected part of the world and the unconnected part of the world. Today’s connected countries include the West and Japan plus economically powerful but newer members such as China, India, Brazil and Russia. The other sector includes countries like Cuba, Sudan, Iran and Colombia – all nations with largely unconnected societies lacking basic commerce and communication with the outside world.

Mr. Barnett expects the unconnected areas of the world to require ongoing political and, occasionally, military attention from the world’s connected countries as more isolated nations experience

coups, civil wars, genocides and other problems that typify despotic governments and poorly run economies. The problems in Myanmar (formerly Burma) where protests have been met by violence and the discontinuation of internet service are a great example of this phenomenon. Mr. Barnett reminds the reader, however, that despite the horrific events taking place in unconnected countries such as Nigeria, Iraq and Darfur, there have never been more connected countries in the world than there are now.

STAKING CLAIM IN A GLOBAL ECONOMY

Robyn Meredith’s book, *The Elephant and the Dragon*, contrasts the economic growth of India and China. A business writer for *Forbes Magazine*, Meredith notes that both India and China sport billion-plus populations as well as remarkable annual economic growth rates in the 8% to 10% range. Yet each has staked a claim to a unique role

in the world's global economy. I quote from Page 198 of her book: "In this decade a clear pattern emerged: China became factory for the world, the United States became buyer to the world and India became the back office to the world."

Her book also explores how China is growing faster than India, and is apparently doing so with far better build-out of its infrastructure. One reason for this difference is the fact that India is a democracy where leaders rightfully hesitate to take such actions as bulldozing squatter-settled shanty towns to clear the way for development (as, after all, even the poor can vote). By contrast, China's dictatorial autocracy makes quick work of implementing the changes needed for economic growth; however, it is well documented that China's growth has taken place with significant disruption to the lives of many innocent Chinese citizens and negative consequences to the environment. There continue to be thousands of small protests each year that the West seldom hears about, mostly in Chinese villages where farmers (or entire towns) have been forced to leave their homes to make room for a highway, dam or new manufacturing plant. The cost of progress in both countries has been a reduction in environmental quality, especially in China where pollution is rampant, coal is still burned for most energy needs and wastewater goes mostly untreated.

Setting aside the evidence that these countries are growing in different, and sometimes harmful ways, the fact remains that massive global shifts are undeniably underway. To quote Ms. Meredith again (page 107): "The combined growth of India and China during the last two decades has cut the global portion of the world living in poverty from 40% to 20%, according to the World Bank. If India keeps growing at 8% a year, it will lift another 350 million people out of poverty."

These are stunning numbers given our base of 6.4 billion people worldwide.

REMAINING MINDFUL OF RISK

Despite the mostly hopeful tone of these books,

both point to political and other risks that are unpredictable at best. India and China have created wonderful new expectations in their citizenry that may be hard to deliver on a consistent basis... and we all know that no government — democratic or communist — wants a billion or so constituents upset all at once. Specific to China, Ms. Meredith worries a lot about Taiwan's ongoing claim of independence. Real concerns also remain regarding needs for natural resources to fuel future growth.

Concerning China, it is logical to expect that the media spotlight of "*Olympic*" proportions next year will expose that country's missteps to billions of us who are "connected" and probably much to the detriment of China's pride. What remains to be seen is China's response to such ongoing and intense media scrutiny. Perhaps in anticipation of the world's eyes being upon them, China recently executed the director of pharmaceutical services and replaced five top level Cabinet ministers just weeks before a major Communist Party meeting convened to set policy for the next five years. The country's leaders are also scrambling to correct safety problems with exported items including pet food and toys.

THE IMPLICATIONS FOR INVESTORS

So, what does all this mean to investors? More than ever, we believe at Hamilton Point that the primary focus here should be on the unstoppable power of globalization — warts and all — and the advantages of staying "connected." Let's not forget that American history is littered with similar abuses such as mistreatment of labor and robber-baron escapades, the likes of which too often continue today. Accordingly, now is probably not the time to harangue countries like China through negative media hype or we risk forcing them to retreat from their connected status. A better course would be to hope that some cajoling from their fellow connected countries, as well as more time, will allow China to grow without major disruption.

In conclusion, Hamilton Point remains fully invested in the equities of the world's strongest, best-managed multinational companies. Our

Global Core Equity portfolios emphasize companies serving emerging global consumers and others assisting in the massive infrastructure build-out now taking place. In addition, we have exposure to natural resources companies. We are not, however, emphasizing consumer discretionary equity and debt sectors in the U.S., since what benefits emerging workers worldwide is, all too often, at someone else's expense closer to home. Finally, appropriate exposure to Inflation Protected Securities is recommended for fixed income portfolios to assuage future risks of inflation.

At this time, real estate driven market issues are generating unusually reasonable valuations for shares of the world's finest companies, many of which are increasing their dividends and share repurchase plans. So, we'll keep our bond durations relatively short and equities long in order to participate in the enduring effects of globalization.

Andrew C. Burns

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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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