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A FAVORABLE OUTLOOK

In January we completed our investment outlook for 2006. This annual analysis serves as the basis for the strategy we use in our client portfolios throughout the year.

As we developed our conclusions, I was chagrined to see that they were similar to the forecasts of many other analysts: (1) the economy will slow a little but remain fairly healthy, with around 3% growth for the year; (2) interest rates and inflation might tick up a little, but will remain modest; and (3) returns on stocks will be moderate but favorable – perhaps in the range of 5% to 10%, with the outlook for large cap growth stocks particularly promising.

Not long after we completed our analysis, I saw a report in the Wall Street Journal indicating that about 80% of investment managers had formulated forecasts similar to ours. Since we all look at the same data and often interpret it in a similar fashion, this is not wholly surprising.

Of course, there is safety in numbers. Even if wrong, we would be amongst a lot of highly respected company. Yet, as active managers, it is an uncomfortable position. Our goal is to be out in front of the pack. In order to achieve that, we need to deviate from the consensus. We need to anticipate what is not yet on the radar of others.

Our forecast continues to make sense to me. In taking a deeper look at our analysis, however,

while our conclusions may appear similar to those of others, our reasoning behind those conclusions is distinct. This reasoning has ramifications and nuances that I suspect will result in strategy that is significantly different from that of other investors.

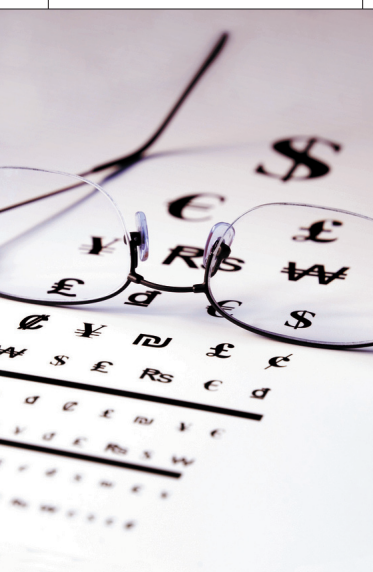
The overriding theme behind our analysis is that of globalization. Despite the setbacks of terrorism and breakdowns in trade negotiations, we see this process as moving inexorably forward. People around the world are hard at work building a global network of communication, transportation and trade that is bringing societies worldwide ever more intertwined with each other.

As investment advisers, our approach is to look for areas of growth and take advantage of them for the benefit of our clients. Clearly companies that are involved in building out the global network are participating in that growth.

We also see vibrant growth in developing economies around the world, such as China and India, among many others.

In determining how best to tap into these rapidly growing industries and markets for investors, we believe that the best way to do so is through investment in large, multinational corporations. There are several reasons for this:

- Large multinationals have the resources and geographic breadth to focus on those lines of business and markets with the most favorable growth outlooks;
- These large companies have economies of scale that enable them to efficiently operate



on a global basis in a variety of emerging market economies;

- These companies also generally have strong internal governance systems, as well as stocks that trade in well-regulated securities markets. This enhances their appeal as investments and reduces some of the risks versus investing directly in emerging markets.

The companies that embody these characteristics, then, are the ones that lie behind our interest in large growth stocks. In addition, there are several other caveats with regard to the kinds of growth stocks that we seek out for investment:

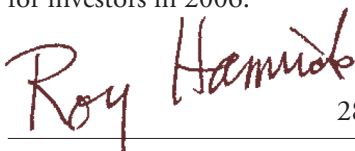
(1) Nimbleness. While large companies have the advantages of scale – of being able to spread their costs over a wide base of operations – they can also easily become lethargic and get bogged down in bureaucracy. On the other hand, many large organizations are imbued with a culture of agility – of constantly reinventing themselves to rapidly adapt to changing conditions and take advantage of new opportunities. Some formerly sluggish companies have successfully implemented radical changes in the way they do business. Nimbleness is a key aspect of the companies that we favor.

(2) Shareholder Value. Many companies, particularly tech companies during the heydays of the 1990's, became swept up in the culture of ever more generous employee stock options. We favor companies that reward their employees and enable them to participate in the company's success. Some companies, however, while highly profitable, have lavish stock option programs that draw off much of that wealth. Over the past several years, this has begun to change – particularly this year with the implementation of new accounting rules that require companies to expense stock options in their earnings reports. The impact of options is now much more apparent. Still,

companies retain leeway in the assumptions they use in determining those costs. In addition, we see companies engaged in other actions, such as aggressive share repurchase programs or excessive executive compensation, which may not be in the best interests of their shareholders. We look for companies that are committed to building value for their shareholders.

(3) U.S. Heartland. The final concern we have in discriminating amongst growth companies is to distinguish between those that operate in vibrant industries with strong markets, and those that may have trouble in the current environment of globalization. Obvious examples are middle-American U.S. companies, like General Motors, which are burdened with legacy costs of retiree pensions and healthcare costs that severely interfere with their ability to compete. We are, however, also concerned about U.S. consumers, who are negatively impacted by the troubles at companies like GM, as well as rising interest rates, rising energy costs and slowdown in the housing markets. Therefore, we also seek to avoid companies that are heavily dependent on middle-American U.S. consumer markets.

In any investment program we believe the most important consideration is good diversification. Within this context, we think the outlook for large growth stocks this year is favorable. In particular, we favor stocks of companies with specific characteristics: those that have a global focus, that operate in healthy industries, and that are nimble and dedicated to delivering value to their shareholders. We believe that well diversified portfolios with this emphasis will perform well for investors in 2006.



28 February 2006

For our complete *Political Economic & Capital Markets Review & Outlook for 2006*, visit our website, www.hamrickinvestment.com. Or contact us and we will send you a copy.



We look for companies that are committed to building value for their shareholders.

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