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Investment *notes*

HAMRICK INVESTMENT COUNSEL

VISION

We envision an investment world in which markets are fair, safe, understandable, rewarding and accessible to all people.

MISSION

We seek to manage investment portfolios for U.S. based foundations, nonprofit organizations and individuals, using the highest level of professional investment advice together with genuinely caring, personal service.

VALUES

Utter integrity, confidentiality, honesty, and ethical conduct

Utmost concern and respect for clients

Highest level of professionalism

Genuine understanding of each client's individual situation and careful attention to all clients' investment needs

SPRING CLEANING

Recently we cleaned the house – from top to bottom.

Beforehand I'm usually unenthusiastic about this annual ritual. In part simply because physically it's a lot of hard work. Another reason is due to the kind of person that I am: if I'm going to the trouble to clean the house, I feel obligated to do the best job that I can. This means moving around a lot of heavy furniture, standing up on a high stool to reach into the corners of the ceilings, and getting down on my hands and knees to delve back into all the nooks and crannies for dust and debris that accumulated during the past year.

It also involves getting into the nooks and crannies of my life, which seems to become ever more complex. Sorting through baskets of photographs of family and friends. Dusting off artifacts from an exotic vacation taken several years ago, or tossing out a shell collected from the beach on a recent weekend retreat. Sometimes I get caught up in the memories. Then it's time to take a lunch break.

Spring cleaning is also a time when I can reflect on my professional work. As I vacuum the stairway, I become increasingly aware of the complexity of the world of investments in which I operate.

Over the past year and a half, since the fall of 2002, we have witnessed a remarkable rebound in the equity markets. Investors have left behind a time when they were fearful they would see their vital savings wiped out, to a renewed environment of generous returns, well being, and speculation.

And yet, all is not the same as it was at the height of the market

bubble. We witnessed the dreadful events of 9/11. We now listen to daily reports on the radio about violence and killing in the Middle East. We conduct hearings into our security failures and implement elaborate systems to ward off future terrorist incidents.

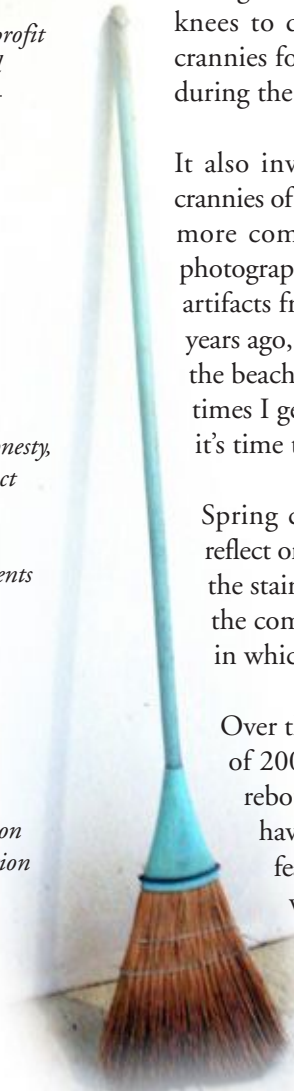
So, too, in the securities markets, our eyes have been opened: accounting fraud, corporate greed, and the more recent mutual fund scandals. We conduct investigations and enact rules and regulations to prevent more of such violations.

Beyond these political and economic failures, however, as I grow older I become increasingly aware of the limitations in our capital markets and economic systems – even when they are functioning properly.

Of course we are pleased with resurgent corporate profits and climbing stock prices when our well-being is so heavily dependent on them. And yet, how can we not be dismayed by related costs, such as skyrocketing health care expenses, or environmental degradation, that often accompany those profits? Are those earnings really profits if we must squeeze the elderly or devastate our environment to generate them?

On the other hand, if we are incurring costs – for government, to maintain an orderly society, or other expenses to support “nonprofit” enterprises, such as to promote the arts or shelter the homeless – don't those costs result in benefits that accrue to us all?

For my increased awareness of these limitations in our economic system, and the possibilities originally envisioned, I am indebted to a recent book by Peter Dougherty: *Who's Afraid of Adam Smith?* Certainly I have long been aware of Adam Smith's work *The Wealth of Nations*, which many consider to be the foundation of



our modern capitalist system. What Mr. Dougherty points out, however, is that Adam Smith wrote another work: *The Theory of Moral Sentiments*. Over the course of his lifetime, Adam Smith rewrote this book six times. He considered social and moral considerations to be vital to the success of the capitalist system.

According to Peter Dougherty: “. . . Smith concerned himself first and foremost with the betterment of society, which, for Smith, meant social mechanisms intended to reduce unvirtuous behavior . . . and to promote virtuous behavior In Adam Smith’s thinking, the market was the institution that not only converted the pursuit of self-interest into the wealth of nations, but, by disciplining its participants, promoted positive social behavior.”

In *Who’s Afraid of Adam Smith?*, Mr. Dougherty proceeds to recount the history of modern economics – and its tenuous inclusion of Smith’s moral sentiments. Mr. Dougherty traces the many ways in which economists have sought to incorporate moral considerations into our market based systems.

As I look at the failures in our world today, I concur with Adam Smith’s vision, as described by Peter Dougherty. The limitations are not with capitalism itself, so much as the irresponsible manner in which we have been pursuing it.

It makes sense to me that people are primarily concerned with their own self interest. In Adam Smith’s vision he sought to find ways to use systems based on self interest to promote social welfare. This, too, makes sense to me. As a society, our task is to create structures that improve the wealth for all – not because we should do so, or because we are required to do so – but because we *want* to do so. I believe that people are inherently good, and seek to do good in the world.

In this regard, our limitations and failures need not be attributed to common human desires to succeed and prosper, but to the ways in which we define and measure success and prosperity. As we seek to create a better world for ourselves, the challenge, as I see it, is to collectively determine what constitutes true wealth.

I recognize that these thoughts are highly idealistic. Do we really believe that we all belong to one human family? How do we account for profits when the benefits to some are at the expense of others? How do we quantify “intangible” concerns, such as freedom, quality of life, environmental protection, global security and peace?

These are heady thoughts to be pondering while scrubbing out the kitchen sink!

I’ve been living in this house and conducting annual cleanings for over 20 years now. Each year, afterwards, I seem to be a little more achy and sore. Next year, I wonder if we should simply pay a housecleaning service to come and take care of it all. Perhaps.

In any event, for now the cobwebs have been swept away (mostly), the furniture – though with a few more scuff marks and rings – has a polished luster, and this old house, while certainly not pristine and sparkling, nevertheless has a renewed warmth and gentle glow about it.

During this coming year, I hope we might have some festive gatherings of family and friends, old and new. That there may be some lively discussions, as well as some quiet times for reading and contemplation. Probably there will be some times when the house is dark and empty and the spiders have it all to themselves. No doubt the cycles of light and darkness, warm summer days and chilly winter nights, will continue. Good or bad, I suspect there will also be many surprises. I already see that we have an infestation of tent caterpillars that we will have to address.

Well, come what may, at least for another year, we’re now spruced up for it.

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