HAMRICK INVESTMENT COUNSEL LLC

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VICISSITUDES

One aspect of the investment world that I enjoy is that things are always changing. Each day when I come into work and turn on my computer, I get to find out what's going on in the markets. Which stocks are up, and which ones are down? What's going on with interest rates? What's happening on the exchange in Singapore? It's always new, surprising and stimulating. There's a small thrill when a favorite stock has leapt up – or the shock when an important holding has plunged. Gut-wrenching, perhaps – yet exhilarating.

Part of my pleasure in experiencing these random ups and downs is that they are confined to images on my computer screen. They have implications for the world around us – the value of our portfolios, or what we will soon be paying for gasoline – but for the time being they are just lively, evanescent images; unpredictable price changes that in the next instant could easily jump in the opposite direction. I find them exciting. Fun.

Beyond this world of investments, however, I'm not so crazy about change. Oh – I enjoy trying a new restaurant or taking a trip to a new destination. But I also enjoy coming back to my same old house and finding all my books and everything right where I left them. I suspect a lot of other people feel the same way.

Unfortunately, life seems to be more like the stock market than my bookshelf. Much as we favor stability, it seems something is always going on. Wall Street thrives on change. In the political arena, what with the recent elections, the past couple of months seem particularly eventful. I think, though, that's a case of what we're paying attention to and how we feel about it. Change is always underway.

There are, of course, all different kinds of changes. Big ones. Little ones. Wanted and unwanted. For the better, or worse. Some are well-anticipated. Others are wholly unexpected. They may be of our own making, or entirely out of our control.

The recent tsunami in Southeast Asia comes to mind. That event was totally unexpected. It was no one's responsibility. And it resulted in widespread death and destruction. Changes like that are heartbreaking. They are painful to encounter and difficult to accept. We may need to grieve deeply over them. Ultimately, though, we have no choice but to accept them.

On the other hand, change can be quite invigorating – particularly when it is wanted and planned for. I think of buying a new home, making a new friend, or getting back in touch with an estranged one. Or of all the joy that comes with a new baby.

A major prospective change that I have discussed in previous newsletters is that of a global financial crisis. Specifically, I had noted that I thought such a crisis might occur in the 2005-2006 timeframe. As we launch now into the New Year, is this still my outlook? If so, what do I think we should do about it?

That outlook is based primarily on the burgeoning U.S. trade deficit and federal budget deficit – the "twin deficits" that recently have been receiving so much publicity. Since both of these deficits have continued to deteriorate, and no significant steps are being taken to reverse them, the crisis scenario looks inevitable to me. I note that many other commentators have now started talking about crisis, as well.

Rather than become paralyzed at the prospect of such a catastrophe, I have been attempting to look beyond it to what the outcome might be. Though possibly devastating, I don't think such an event would be long lasting, or that its impact would be permanent. Nor do I view a financial crisis as a sign of global deterioration. On the contrary, such a crisis might serve as a catalyst towards global structural changes that are already underway.

The ways that we cope with change in this ever-changing world are significant. With investments, the primary strategy is diversification. If we knew the future, we wouldn't need to diversify. All we would need to do is buy that one winning investment and be done with it. Since we don't know the future, however, the optimal strategy is, as best possible, to own a little bit of everything. In that way we are sure to own some of the best performing investments, and not get wiped out by the losers.

Hedging techniques are another strategy that many investors use to handle uncertainty. In the past few years, hedge funds and other aggressive strategies such as short sales and put options have become increasingly popular. Such strategies are usually based on short-term market speculations. They may earn profits when securities prices go either up or down.

In light of the heightened risks currently in the markets, I have been evaluating whether or not to use hedging techniques in overseeing client portfolios. There are good arguments for them. During this period when markets are likely to be tumultuous with possibly negative returns, investors can use them to protect their portfolios, or even profit handsomely.

Nevertheless, after careful consideration, I have chosen not to use aggressive hedging techniques. The reason is because they conflict with my investment philosophy. At Hamrick Investment Counsel our approach is to participate in the rewards of longer term global economic growth. We don't seek to profit on short-term speculations, or on the losses of others.

That does not mean, however, that I am ignoring current risks. In this uncertain world, there are still strategies that make sense to me: holding somewhat higher than usual levels of cash, for example. Investing in U.S. Treasury Inflation Protected Securities (TIPS). Focusing on lower-risk, dividend paying stocks and real estate investment trusts (REITs), as well as diversifying into foreign stocks and bonds. All these are ways I am currently seeking to protect client portfolios.

At the same time, I am attempting to look beyond the current risks. I think the current economic imbalances and political instabilities represent growing pains in a world that is struggling to evolve to a higher level of civilization: a world that is more democratic, more prosperous, and encompasses an ever-increasing proportion of the world's population. My strategy is to invest in that vision of the future.

As I sit here at my computer, watching all these stock prices constantly bobbing up and down, I can't help but wonder: is this all for the better? Or do some of these changes leave us worse off than before?

I don't know if there is any way to evaluate that. For better or worse, it seems that change is natural and inevitable. There is no certainty about how things will turn out. As individuals, as investors, as members of our global society, we may believe that we have no control over the changes that occur.

At the same time, based on who we are, how we choose to invest, and how we all treat each other – together we create what the world's future will be.

With best wishes to all for a healthy, prosperous and peaceful 2005,

Roy Hamrick

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If you would like to read our complete *Political, Economic & Capital Markets Review and Outlook for 2005*, it is now available on the Newsletter page of our website (**www.hamrickinvestment.com**). Or contact us and we would be happy to send a copy to you.

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