



April 2011

## INVESTMENT PERSPECTIVES

### **America the Beautiful**

We often take for granted the freedoms we have here in the United States. For the large majority of us, from the time we get up in the morning to the time we go to sleep at night, we are safe and secure in our homes and surroundings. And we are not afraid that the state police will come knocking on our doors in the middle of the night. We have the peace of mind to pursue those endeavors that we wish. “Life, liberty and the pursuit of happiness”, (as stated in the Declaration of Independence) is not just an empty statement, it is the embodiment of our nation.

Recently, we have heard people complain about the downturn in the business climate in the United States. Look at our deficit, our housing situation, and big government. America doesn't manufacture anything anymore, it only provides services. The stock market is run by large institutions like Goldman Sachs and high frequency trading dominates the stock market. Our problems today are larger than ever and seem to be intractable. Like standing at the edge of a chasm, deeper and wider than the eye can see, it seems uncrossable; most can't even fathom where to start.

We at Hutchinson Capital, on the contrary, are quite bullish on the future of America. We believe that the problems identified above are solvable and are beginning to be tackled in a meaningful manner.

### **Foundation**

Many of our basic freedoms are articulated in the Bill of Rights, the first ten amendments to the Constitution. These give our nation the foundation which empowers our citizens. We believe that the following are the most important:

- First Amendment – Freedom of speech, of the press and of assembly

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

- Fourth Amendment – Protection from unreasonable search and seizure

The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

- Fifth Amendment – Due process, double jeopardy, self-incrimination, eminent domain

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

- Sixth Amendment – Trial by jury and rights of the accused, confrontation clause, speedy trial, public trial, right to counsel

In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the Assistance of Counsel for his defense.

- Seventh Amendment – Civil trial by jury

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any court of the United States, than according to the rules of the common law.

- Eighth Amendment – Prohibition of excessive bail and cruel and unusual punishment

Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

- Tenth Amendment – Powers of States and People

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

The Market Economy that we have in the United States is built on this very strong legal foundation. A central feature of the U.S. economy is the freedom the private sector has to make the majority of decisions in determining the direction and scale of products produced in the U.S. Today, the United States is home to 29.6 million small businesses, 30% of the world's millionaires, 40% of the world's billionaires, as well as 139 of the world's 500 largest companies. From its emergence as an independent nation, the United States has encouraged science and innovation. As a result, the United States has been the birthplace of 161 of Britannica's 321 Great Inventions, including items such as the airplane, internet, microchip, laser, cell phone, refrigerator, email, microwave, LCD and LED technology, air conditioning, assembly line, supermarket, bar code, electric motor, and the ATM. <sup>i</sup>

The United States is rich in mineral resources and fertile farm soil, and is fortunate to have a moderate climate. It also has extensive coastlines on both the Atlantic and Pacific Oceans, as well as on the Gulf of Mexico. Rivers flow from far within the continent and the Great Lakes providing additional shipping access. These extensive waterways have helped shape the country's economic growth over the years and helped bind America's 50 individual states together in a single economic unit. The United States with just 5 percent of the world's population generates a sixth of the world's meat and nearly half its soybeans and corn. <sup>ii</sup> The number of workers and, more importantly, their productivity help determine the health of the U.S. economy. Labor mobility enables the workforce to move to locations where they are needed.

A defining characteristic of our country is the ability to make changes quickly. Many are concerned with the levels of home foreclosures and unemployment; however there are positives to these. Cash buyers and new homeowners are buying properties at lower prices daily. Companies that laid people off and saw revenues drop quickly in the 2009 recession are now looking to rehire. Many people are able to restart their lives debt free. Conversely, in Japan, when a company went bankrupt, no one was fired and no debt was erased; companies, banks and eventually the economy became moribund because they had no way to "reset" for growth.

Another important characteristic of our great country is our entrepreneurial spirit. Many people dream of becoming millionaires in America, and they have that opportunity. We have no caste system or monarchy that deems who can and cannot become wealthy or powerful. We have the ability to start businesses and have access to capital that is unparalleled anywhere else in the world.

## **Globalization**

While we may live in the United States, we are increasingly living in a global world. To a greater extent, our children and grandchildren will have to think about jobs and skills on a global scale, not just a national one. Tom Friedman, a popular author and columnist for the New York Times, describes it this way in his book "The World is Flat":

"If you had a choice thirty-five years ago between being born a B student in the Bronx, or a genius in Bangalore, India, your life opportunities would be so much better if you were

a B student in the Bronx. Today, when the world is flat, you would rather be a genius in Bangalore.”<sup>iii</sup>

Change is hard, but change is natural. For some this is incredibly scary, for others incredibly exciting! As investors, we must look ahead for companies adapting to these opportunities.

American investors and corporations have influence all over the world. At Hutchinson Capital, as an investor in companies domiciled in developed markets (i.e., U.S. and Europe), we find it strange when investors talk about domestic and international companies as completely separate entities. Many investors express interest in owning these individual so-called “asset classes”. If you look at the companies that we hold in your portfolio(s), many of them earn a large share of their profits from outside of the United States. Companies do not think locally anymore, they think and act globally.

Emerging markets have burgeoning middle classes that will start to spend as their discretionary incomes increase. Many global investors are flocking to buy small, local companies with access to these customers. However, many of these local companies traded on local exchanges have no checks and balances for their accounting and live in a world of opaque business dealings. We prefer to own stocks that are subject to strict accounting and regulatory standards, which is why we own stocks traded on these larger developed country exchanges.

## **Conclusion**

The amazing outcome that is materializing in front of our eyes is our country’s will and drive to cross the massive chasm discussed earlier. We believe our basic freedoms, our political and economic systems, and our entrepreneurial spirit are providing us with the foundation to address and resolve our problems. A key component of all of this is each citizen’s deep respect and confidence that America’s approach to managing itself works. We continue to believe that America is and will be a great place to invest and that we will continue to prosper for many years to come.

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<sup>i</sup> Wikipedia, “Economy of the United States”, 2011

<sup>ii</sup> Paul Roberts, *The End of Food*, Houghton Mifflin Company, 2008, p 25.

<sup>iii</sup> Thomas L. Friedman, *The World Is Flat*, Farrar, Straus and Giroux, 2005, p.194