

Thoughts from

Hanson Investment Management Inc.

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Hanson Investment Management is an investment counsel firm managing portfolios for individuals and institutional clients. The firm also consults with individuals on financial planning and works with self-directed retirement plans on investment options.

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Where Did the Blue in Blue Chip Go? ...

THE LARGEST MOST CONSISTENTLY PROFITABLE companies in the market are known as Blue Chips. The term is borrowed from poker where Blue Chips are the most valuable. At least they always have been. Take a look at the chart below. Last year over twenty of the fifty largest companies in the Standard & Poor 500 fell more than 20%. Since 1963 just five in this top tier group have lost that much in a year, on average. Names like AT&T, Lucent, Xerox, General Motors, JC Penney and the two California utilities PG&E and Edison International have come on hard times.

Why the change? Well for one, size may be a drawback. Companies are getting so large today that maybe no one can manage them efficiently. In 1999 the average annual revenue of the fifty largest public companies in the U.S. was just under \$51 billion. This is 70% higher than it was fifteen years ago. More than fifty companies now employ more than one hundred thousand workers. In the mid 1980's only eighteen did.

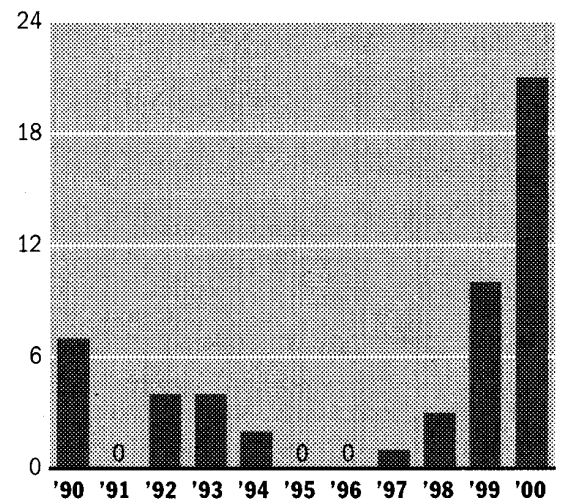
A second reason is de-regulation. In the old days you could count on predictable returns from utilities and telecommunications. But no more. Now a company like Q West can come out of nowhere to challenge AT&T. And in California, the sixth largest economy in the world, the two largest utilities can be brought to their knees by de-regulation.

A third factor is technology. The world is changing so fast that companies like Xerox or Lucent can get blindsided if they miss the next new thing.

What can investors do about this? Two things I think. One is don't put all your eggs in one basket. You need to hedge your bets and be well diversified. And second is, you need to remain active with your investments. This doesn't mean we all turn into day traders. It simply means we can't assume last decade's winners will be this decade's. We need to be more vigilant. As Andy Grove at Intel likes to say, only the paranoid survive. How true.

Blue-Chip Blues

The number of stocks among the 50 largest companies in the Standard & Poor's 500 that fell 20% or more each year.



Source: Grantham, Mayo, Van Otterloo & Co.

Source: Wall Street Journal

The U.S. Scene . . . It's Alan Greenspan against the Big Mo . . .

THE RACE IS ON. In one lane is Alan Greenspan furiously cutting rates. In the other is the economy quickly losing speed and teetering on the edge. Can Alan work his magic and get there in time to prop up the patient or will the economy simply collapse in a heap? Well take a look at the charts on this page. The numbers on consumer and business confidence do not look good. Psychology is turning ugly. No one seems to want to buy anything these days. And adding fuel to the fire is the

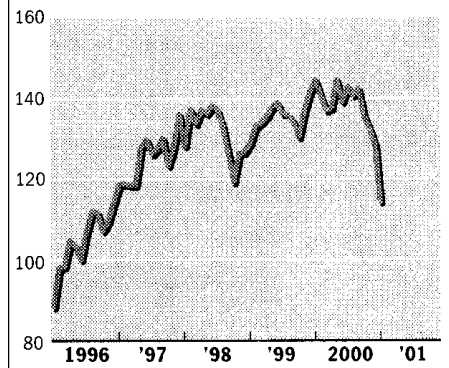
But the good news is our policy tools are impressive today. Any slowdown should be short and shallow. The Federal funds rate is still 5½% and Greenspan could push short rates down as much as two full percentage points if he has to. Second the projected Federal surplus gives us plenty of room for hefty tax cuts. And finally a slowing economy should push energy prices down. Any help here would be a big plus.

February marks the tenth anniversary of this current economic expansion. It's the longest one in U.S. economic history. Quite some performance. Allan Sloan writing in *Time* says we are now simply back to the "natural order" where business cycles move up and then they move down. This is not the end of the world; it just means we are getting back to the basics of business. We agree with this.

We are not taking any unusual steps now to insulate ourselves from an economic slowdown. We don't invest any differently in Bear markets than we do in Bull markets. We look for good quality companies with outstanding management

Losing Confidence

Consumer-confidence index (1985=100)



Source: The Conference Board

Source: The Wall Street Journal

teams, a balance sheet with little debt, and solid cash flow which is the fuel for future growth and profitability. And finally we look for a reasonable price relative to these fundamentals. You always get a lot more choices of interesting companies in a Bear market than a Bull period. Tough economic times are never fun but they are a fact of life. And surviving the downturns is the only way to get to the other side and the long periods of clear sailing.

Making the Cuts

Companies that have announced plans to cut large numbers of jobs.

Planned job cuts

Montgomery Ward*	32,000
DaimlerChrysler	26,000
General Motors	15,000
Lucent Technologies	10,000
Bradlees*	10,000
Sara Lee	7,000
Whirlpool	6,000
J.C. Penney	5,500
Aetna	5,000
Chase Manhattan	5,000

*Filed for bankruptcy

Source: Challenger, Gray and Christmas, Bloomberg News

WP

Source: International Herald Tribune

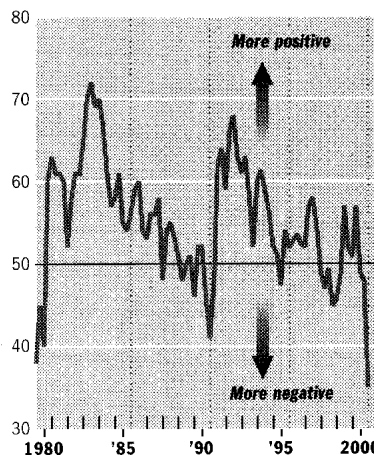
record number of corporate layoffs today. Big corporations are very concerned with productivity and at the first whiff of a downturn they cut jobs to keep output per worker up.

So what's the verdict, Alan Greenspan or recession? Our best guess is recession is the winner or at least a serious slowdown (ugh). Alan Greenspan has the right tools now but he doesn't have time on his side. The economy is losing steam fast and monetary policy just takes too long to kick in.

Business Pessimism Takes its Toll

CEOs' outlook grows pessimistic...

Index of chief executive officers' expectations for own industry in the next 6 months*

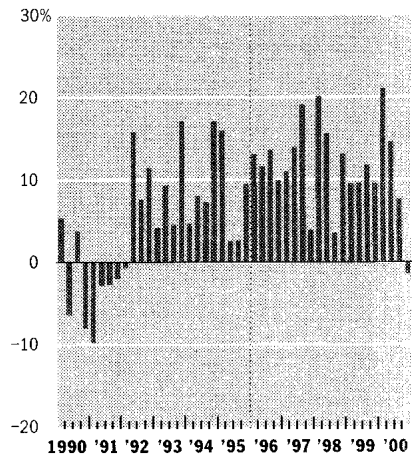


*Based on a quarterly survey of 750 U.S. chief executives, whose companies are associates of the Conference Board; 100-150 typically respond.

Source: The Wall Street Journal

And business investment contracts

Private nonresidential fixed investment, quarterly change at an annualized rate



Sources: the Conference Board, Thomson Financial Datastream

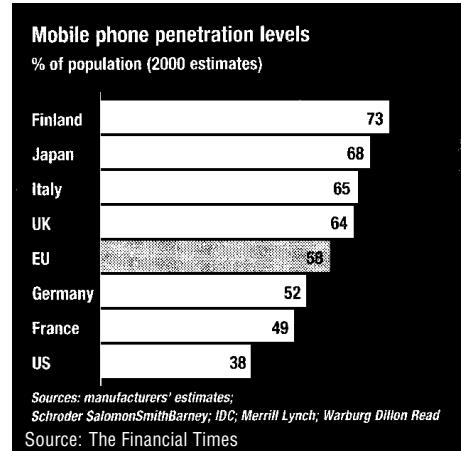
Technology Trends . . . Is this the Next Big Thing or What? . . .

PLEASE EMPHASIZE THE “OR WHAT”. I am not sure wireless is the next big thing, but the idea is tempting. The world seems to be converging on wireless today. But America has been slow to take up this technology (*chart in upper right*). I am not sure why. Maybe it is the cost of cellular or maybe it's the fact that we don't have a nationwide technical standard for wireless. I don't know. In any case Europe and Asia have jumped in in a big way. Take Japan for instance. NTT DoCoMo, the largest Japanese mobile phone operator, introduced its “i-mode” or Internet over the wireless network in February 1999. The company predicts that by the end of March

going to read e-mail or do serious browsing on teeny-weeny cell phones. The skeptics also note that the DoCoMo service in Japan is used mostly to check daily cartoons, visit fortune-telling sites and play games. In effect it might be just a fad.

If America adopts wireless in a big way, how can investors play the move? The obvious way is through the wireless service providers. Verizon Wireless and Cingular (a partnership of SBC and Bell South) are the current leaders. But AT&T Wireless could be the big winner. They just teamed up with DoCoMo to introduce a form of I-mode here sometime between 2002 or 2003. The cash infusion by DoCoMo means AT&T can build its system without taking on an enormous amount of debt. A big advantage.

Another way to play wireless is through infrastructure. Peter Lynch, formerly of the Magellan Fund, likes to say when they yell gold rush, don't buy gold, buy the companies that make the gold mining pans. In wireless this means component makers. One interesting idea is Kopin, an MIT spin-off. Kopin has two products. The first is transistors. Over 200 million phones now use Kopin



power amps. A second product could be the really big one. Kopin has developed a tiny cyber display or TV screen the size of a match book cover. Kopin screens are used now in camcorders. The wireless screens will be even smaller and the company has demonstrated screens with the clarity of HDTV. Built-in mirrors magnify the image to full TV size. The stock is down from 50 to the low teens on fears that the 3-G rollout will take a lot longer than the industry thinks.

Hanson Investment Management does not own either AT&T Wireless or Kopin now. We are simply on the look out for the next big thing in technology. We will keep you posted.

New Momentum for AT&T Wireless

Here's what AT&T Wireless gets from NTT DoCoMo

CASH to invest in equipment and upcoming spectrum auctions

EXPERTISE in running wireless data networks

A POWERFUL ally in third-generation technology known as W-CDMA

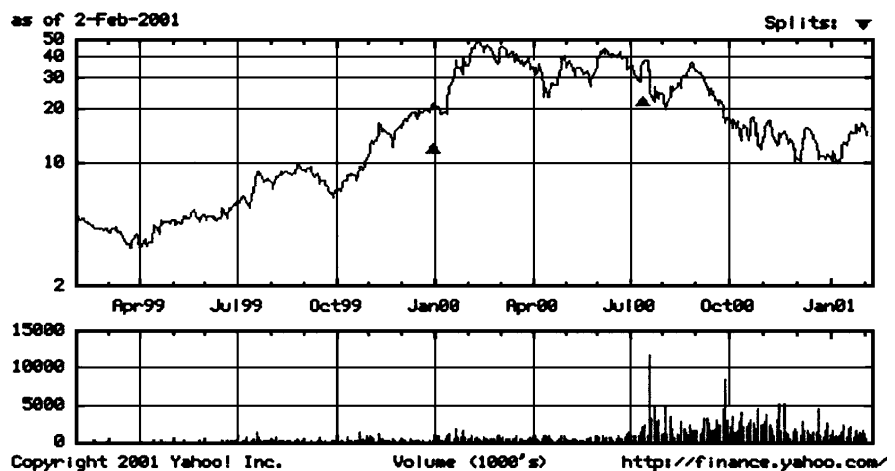
Source: Business Week

twenty million people will have signed up for the service. This is almost one in six Japanese. A phenomenal adoption rate over such a short period of time.

The next generation of cell phones could be the big breakthrough for the U.S. market. “3-G” or third generation technology will be introduced in Japan in May. This system will boost data transmission speeds forty times. This is the same speed broadband users now get on their personal computers.

The question is will the U.S. take to wireless the way Europe and Japan have? Skeptics argue that people are not really

Kopin Corp. (KOPN) . . .



Personal Finance . . .

Another Look at Some Tried and True Investing Principles . . .

DURING THE LATE 1990s, popular wisdom held that the United States had entered a sustained period of growth. The term “New Economy” was coined and along with it the belief that technological innovation would save us from the economic booms and busts of the past. From 1995–1999, the S&P 500 gained more than 20% annually.

Today, faltering economic growth and increased market volatility has thrown all this into question. What should investors be doing now to navigate the current choppy market waters? Consider the following five steps.

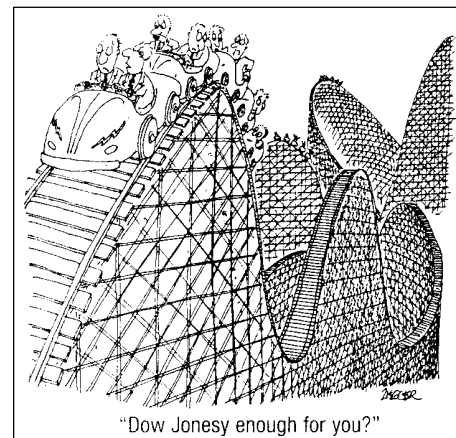
1. Get Organized. Review where your money is and how it is invested. While you needn't become an expert on every stock you own, you should have a basic understanding of the kind of investments you hold and how their returns are generated. Next, figure out what percent of your money is in stocks, bonds and cash. How you allocate your funds between the major asset classes will have the biggest influence on your returns.

2. Think About Risk and Return. The mix of stocks, bonds and cash most appropriate for you depends on your investment time frame and the amount of risk you're comfortable taking. For most investors, figuring out how much money you need and when, is pretty easy. Determining how comfortable you are with risk is a little more difficult. To

get a better handle on this, consider how you felt over the course of the last year. If market downdrafts had you losing sleep, then take note. Investors with long time horizons and a high-risk tolerance can accept a higher percentage of common stocks in their portfolio. If you need your funds in say less than 5 years and were taking Pepto Bismol last year, consider a healthy dose of bonds.

3. Diversify, Diversify, Diversify. Diversification has long been a basic investment tenant. The whole idea here is that investors can reduce overall portfolio volatility and improve returns by owning a diverse range of investments. Within the context of a common stock portfolio, this has generally meant holding anywhere from 12-18 stocks spread across a wide range of market sectors and industries. While simple enough, many investors ignored this basic rule over the last several years by loading up on high-flying technology stocks.

Investment theory also supports the notion of diversifying your assets across bonds and stocks and across domestic and international issues. This idea has been called into question lately as domestic equities handily outperformed more fully diversified portfolios. While individual asset classes can go through prolonged periods of out performance, predicting when these periods will begin and end is difficult. Diversifying across asset class and market sectors protects



Cartoon: The New Yorker Collection from Cartoonbank.com All rights reserved.

against being in the wrong place at the wrong time.

4. Don't Try to Time the Market. For most investors, the idea of market timing, or successfully moving money into and out of the market, holds great appeal. Unfortunately, despite its obvious benefits, no one has been able to devise a market timing system capable of outperforming a basic buy and hold strategy. When share prices fall, it is tempting to throw in the towel. Resisting the urge is what disciplined investing is all about.

5. Stick With the Program. If your asset allocation has carefully taken into consideration your risk tolerance and return objectives, then sit back and do nothing. Developing a long-term focus can help prevent you from getting

caught up in short-term events. Take a look at the chart to the left. With only a few exceptions, stocks and bonds have produced positive returns in each of the previous eight decades. As the last year has shown, short-term returns can certainly be quite volatile. Over very long periods of time, however, investment returns have proven to be fairly stable. Try not to micromanage the process too much.

—Anne Williams Doremus

Compound Annual Rate of Return by Decade

	1920s*	1930s	1940s	1950s	1960s	1970s	1980s	1990s
Large Company	19.2%	-0.1%	9.2%	19.4%	7.8%	5.9%	17.5%	18.2%
Small Company	-4.5	1.4	20.7	16.9	15.5	11.5	15.8	15.1
Long-Term Corp	5.2	6.9	2.7	1.0	1.7	6.2	13.0	8.4
Long-Term Govt	5.0	4.9	3.2	-0.1	1.4	5.5	12.6	8.8
Inter-Term Govt	4.2	4.6	1.8	1.3	3.5	7.0	11.9	7.2
Treasury Bills	3.7	0.6	0.4	1.9	3.9	6.3	8.9	4.9
Inflation	-1.1	-2.0	5.4	2.2	2.5	7.4	5.1	2.9

* Based on the period 1926-1929.

Source: Ibbotson Associates