

Thoughts from

# Hanson Investment Management Inc.

VOLUME 7, NUMBER 5

JANUARY 2002



**431 Pine Street  
P.O. Box 819  
Burlington, VT 05402  
U.S.A.**

**Phone: 802-658-2668  
Fax: 802-658-1027**

**E-mail:  
ehanson@hansoninvestment.com**

**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.**

©2002 Hanson Investment Management

## *It's what makes the economy really click . . .*

**I** AM TALKING ABOUT STANDARDS. You probably have never thought a lot about this but if you do you will see that standards make a lot of things go. Standardization for instance is what allows for mass production, which in turn leads to lower retail prices and higher productivity. William Sellers developed the first standard back in 1864, according to a recent article in *Wired* magazine. It was for the common screw. In the second half of the 19th century the machine tool industry was America's big high tech sector. But until the shape of the threads of the flathead screw were standardized, machine tool sales were limited. After standardization, mass production really took off. Even Britain signed on to the "American" standard for the screw after U.S. replacement parts failed to fit British weapons in WW II.

Who sets all these standards? In some cases government but in most cases the market. Take the wireless industry for instance. In Europe governments got together and set the GSM standard (Groupe Speciale Mobile) in 1991. Today you have one seamless wireless phone service for the entire continent and it's a real hit. Here in the U.S. development has been more jerky. TDMA was an original solution but it hasn't caught fire. GSM also has its backers but the real winner could be CDMA. This technology developed by Qualcomm of San Diego is best suited for the demands of third generation wireless (3G), which allows for Internet connection over wireless phones. China and Korea are putting CDMA in now and the largest U.S. carrier, Verizon, is already on board.

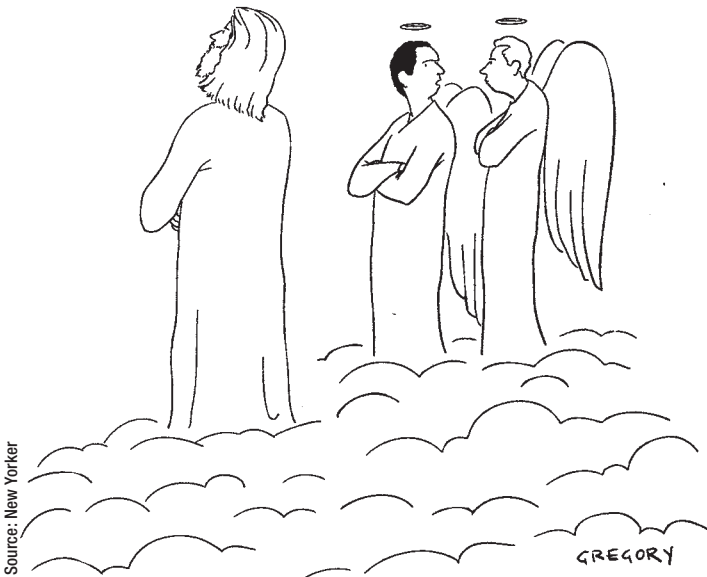
Wireless is growing rapidly today but if we are right you ain't seen nothing yet. When standards finally get settled, then the real growth hits. That's what the list to the right says.

### **THE POETRY OF STANDARDS**

TCP/IP  
XML  
XM  
MIDI  
MP3  
AA batteries  
DD cup  
19-inch rack  
1 percent milkfat  
100 percent kosher  
24 karats  
1.6 gallons per flush  
40 ounces  
80 proof  
35-hour workweek  
3 1/2-inch floppy  
8 1/2 x 11  
#2 pencil  
QWERTY  
26 letters  
88 keys  
120 bpm  
33 1/3 rpm  
4/4 time  
four-year degree  
three-ring binder  
three-prong plug  
RGB  
rated R  
20/20  
120/80  
USDA Prime  
.357 magnum  
357 cubic inches  
93 octane  
65 mph  
8-track  
Betamax

Source: *Wired*

# The World and Wall Street in the Cartoons . . .



Source: New Yorker

GREGORY

*"It has yet to turn a profit." 2000*



Source: New Yorker

*"Forgive the mess. Warren just put everything into cash."*



Source: New Yorker

*"LaGuardia, and hurry — I've got a flight in six hours."*



Source: New Yorker

BJ

*"Sometimes the future is bright, sometimes it's dark — its all cyclical."*



Source: Washington Post

THE RETURN OF THE TALIBAN WARRIOR.

# The Post Sept. 11 World . . .

## A quick (very quick) Pakistan primer . . .

**A**MERICANS ARE GENERALLY a pretty provincial lot. We haven't had the need to learn a lot about other countries. Globalization has meant them learning English rather than us learning their language and culture. The *International Herald Tribune* recently reported that only two U.S. newspapers have full time foreign-affairs columnists, Thomas Friedman of the *New York Times* and Jim Hoagland in the *Washington Post*.

September 11 has changed a lot of this. We are all on a furious learning curve now to get up to speed on the Middle East and Islam. Pakistan is a country that interests me today. My parents lived in Pakistan during the salad days of General Ayub Khan in the

### Adult Illiteracy

Over half those over the age of 15 in Pakistan cannot, with understanding, read and write a short, simple statement about their everyday life. That is the World Bank's definition of adult illiteracy. The highest illiteracy rates are in Africa. But higher income does not guarantee higher literacy. In Egypt, more than 40% of adults cannot read. In Ecuador, with a similar income per head, the illiteracy rate is only 9%.

% of people ages 15 and above, 1999



Source: World Bank

Source: The Economist

1960's. The country was beautiful, the people nice and the potential seemed great. I often ventured north from Karachi to Lahore and Rawalpindi (the former capital) and even over to Peshawar and the Khyber Pass and on to Kabul.

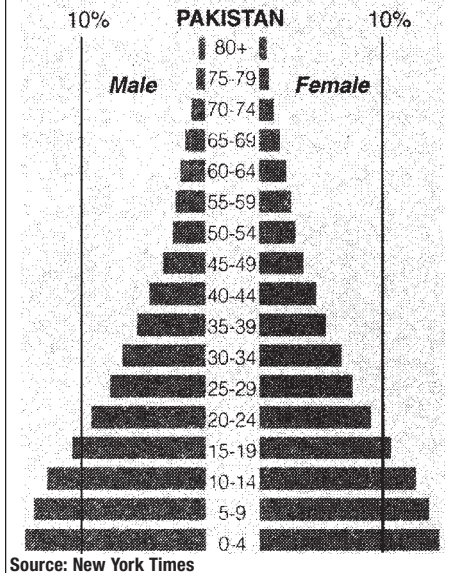
Since the 1960's Pakistan has squandered a lot of its riches. Corruption, ineffective policies and just plain bad management marred the regimes of Ali Bhutto and his daughter Benazir Bhutto and other subsequent Presidents. Today over 60% of the federal budget goes simply to servicing the country's huge foreign debt. That's right, 60%.

Pakistan's population is very young now and very uneducated (*see charts on this page*). When the Soviets invaded Afghanistan over 3 million refugees fled that country into northwest Pakistan. The government had few funds for education and Muslim religious institutions stepped in and funded boarding schools for very poor boys between the ages of 5 and 30. Today it is estimated there are 7,000 of these Madrassas teaching 600,000 students. The schools are often limited to rote memorization of the Koran and many of them have given over to the theology of fanaticism. So Pakistan today has two key ingredients for a potential Muslim tinderbox: adult illiteracy, which limits development in a global economy, and a very young population with high expectations but little opportunity.

And there is a third leg to this stool. Pakistan is one of the world's biggest producers of cotton (the others are China, India and the U.S.). Textiles are Pakistan's largest industry and it employs sixty percent of the country's manufacturing workforce. The U.S. is the largest single buyer of Pakistan textiles, taking one third of the output. But after September 11 orders dropped off a cliff. It is estimated they are down 60%. Companies like Perry Ellis, Tommy Hilfiger and American Eagle cancelled orders due to fears of instability and disruption of shipments. Others said that the "Made in Pakistan" label is now

### YOUTH BOOM

Nearly every country in the Middle East is experiencing a significant "youth bulge," where younger members make up a significantly greater percentage of the total population than older members. Following are current population breakdowns for different age brackets in Pakistan.



a liability in the U.S. market.

Pakistan has asked Western countries to offer tariff relief to allow them to hold on to orders and employees. The European Union has waived all tariffs on textile products from Pakistan, but the United States refuses to drop its 17% tariff. Textiles are still a big part of the southern economy and congressmen from the Carolinas, Georgia and Alabama are exercising their clout.

How ironic then that our new best friend in the war on terrorism is losing 60% of its largest business because we are unwilling to support them economically. We are doing our best (our editorial) to push Pakistan closer to unrest so that we can support an industry here (textiles) that has no real future in the U.S. Short term, the war on terrorism is about dropping bombs but long term it has to be about offering opportunity and hope to the youth of the emerging world, both Muslim and others. My take is we ain't learning the lessons of globalization very well today. Watch out for Pakistan.

# The International Scene . . .

## Money, Money, Money . . .

**J**ANUARY 1st, while Americans were busy pondering New Year's resolutions, over 300 million Europeans were saying goodbye to their familiar liras, francs, pesetas and marks. In exchange, citizens of 12 of the 15 European Union nations are receiving a colorful array of new euro notes and coins.

Although relatively unnoticed in the States, this transition is truly historic in nature. Never before have so many people in so many separate countries simultaneously adopted a single currency. In preparation for the change, the European Central Bank (ECB) minted 52 billion new coins and 14.9 billion bank notes worth a total of 649 billion euros (\$584 billion).

So far, the transition has proceeded with only a few minor glitches. In Finland on New Year's Day, less than 40% of cash dispensers were able to pay out the new currency due to money shortages. At tollgates around Rome and Paris, long lines developed as motorists struggled with change. For the next two months, consumers can use both euros and old national currencies. After that, only commercial banks and money exchangers will accept the old monies.

In addition to issuing new money, the ECB has to pull old money out of circulation. Across Europe, about 350,000 tons of old coins will have to be rounded up, stored and ultimately melted down. To ensure a smooth transition, authorities have been paying particular attention to security matters. Much of the money being retired is in large denomination coins and is valuable enough to require guarding against theft. Counterfeiting is also an issue as criminals take advantage of consumer's lack of familiarity with the notes. To date, over 5 million euros worth of currency has been stolen and several counterfeit notes have shown up.

So what will be the impact of the euro transition? Near term, the changeover could give European economies a badly needed boost. Spending in many member countries has surged as consumers rush to get rid of "Black Money"

or undeclared and untaxed savings prior to the changeover. Merrill Lynch economist Sharda Dean predicts that this "mattresses money" alone will contribute about half of Europe's expected 1.2% economic growth next year.

The euro's arrival will also have important long-term benefits. Prior to January 1st, prices for similar goods varied widely across Europe. Britain's *Observer* newspaper reported recently for example that a Volkswagen Golf auto cost 22,685 euro equivalents in London and 16,610 in Paris. The ability to compare prices across the euro zone should eliminate these price differentials,

increase competition, boost efficiency and spur trade. Andrew Rose, economist at the University of California at Berkley, estimates that the transition could boost intra-euro zone trade two or three times over the next five years.

While the euro certainly qualifies as the world's most important new currency, it is unlikely to challenge the dollar's dominant role. Throughout the world, the dollar remains the currency of choice. Today, foreigners hold about two-thirds of U.S. currency and half of world trade is conducted in dollars, even though the U.S. produces only 25% of the world's products. The military supremacy of the United States also supports the dollar's

strength. As Adam Posner, senior fellow at the Institute for International Economics, points out, "The global currency usually belongs to whoever won the last war."

There can be no doubt that this new common currency will help unify euro zone commerce. Complete economic integration, however, will require dismantling a wide range of ingrained regulations and trade barriers. Make no mistake, the currency's recent successful launch marks an important step in the region achieving greater economic prominence. The euro is on its way but has many obstacles to overcome.

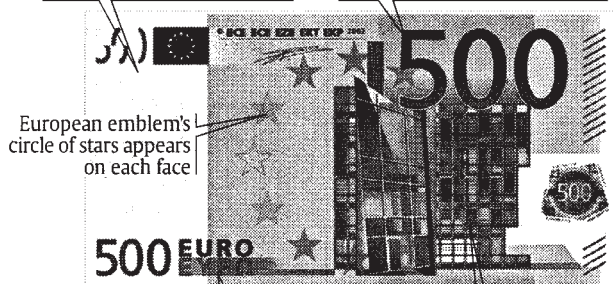
Anne Williams Doremus

### A closer look at the euro

Twelve of the 15 European Union nations will change their currencies to the euro on Jan. 1. What travelers in Europe will encounter:

Physical size of notes increases as denominations rise

Different colors, large numbers used to aid sight-impaired users



Name of currency in Latin and Greek

Windows, gateways are main architectural elements

#### Style and color

The seven euro notes have common faces and reverse sides reflecting EU nations. Color key of denominations:

- E5 (gray)
- E10 (red)
- E20 (blue)
- E50 (orange)
- E100 (green)
- E200 (yellow-brown)
- E500 (purple)

#### Design style

Theme of euro design is 'Ages and Styles of Europe.' Winners were chosen from EU design competitions.

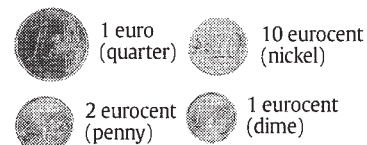
#### Expensive weight

More than E644 billion will be coined in notes and coins and will equal the weight of 24 Eiffel Towers.

Source: USA TODAY research

#### Size comparison to U.S. currency

Of the euro banknotes, the E200 is closest in length to the U.S. dollar. Four of the eight euro coins are similar in size to U.S. coins.



#### Euro's value against dollar

