Thoughts from
Hanson Investment Management Inc.

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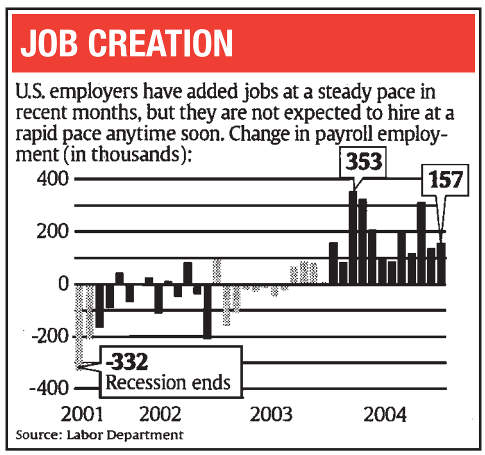
Hanson Investment Management is an investment counsel firm managing portfolios for individuals and institutional clients. The firm also consults with individuals on financial planning and works with self-directed retirement plans on investment options.

A New Year . . .
A New Crystal Ball . . .

THIS MAY BE INCREDIBLY unimaginative but our take is 2005 will be 2004 redux. More of the same in the new year. Global growth will be about 4% in 2005. Inflation will be a bit higher and short-term rates will also but not by much. Corporate profits should improve 10% and job growth will continue.

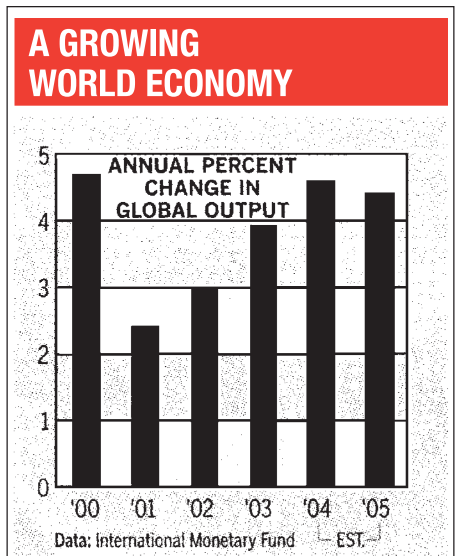


Source: USA TODAY

I realize what you are about to say: what about all the shocks? What about the collapse in the dollar? And the increase in oil and inflation? What about the twin deficits, the budget and the trade numbers and what about terrorism? Each of these could put a big cog in the wheel. But still it takes a lot to turn a super tanker and this global economy has plenty of momentum today.

The big issue is not a short-term one but longer-term. Stephen Roach, the excellent economist at Morgan Stanley, calls this the 'unwinding of Pax Americana'. Since the early 1980s we have had a wonderful breeze to our back. Interest rates have declined continuously, inflation has been nonexistent, productivity has surged, corporate profits have grown and employment has generally been strong. Today the stars are falling rapidly out of alignment. Everything is going in the opposite direction – interest rates, inflation, the deficits – and the problem looks more secular this time than cyclical. Add in our mega issues of Social Security and health care costs and you have a recipe for a really bitter brew.

We seem to have entered a new era now. The winds are in our face not at our back. This doesn't mean that the economy and the stock market can't make headway in 2005; we think they can but everything is going to be more difficult. The low hanging fruit has been picked. Tougher stock picking in the years ahead.



Source: Business Week

Money, Money and Money . . .
Is this all there is? . . .

IN A RECENT EDITION OF *Barron's*, Pittsburgh-based PNC Advisors asked 792 of its wealthy private banking clients what they would need to be financially secure. The answer was, double their current wealth. Keep in mind that all 792 respondees already have a average of $10 million. These survey results are not unusual. Almost every one finds that people would be "much happier" and much more "secure" if they had double their current income. But studies also show that once people achieve income even as low as $10,000, increasing income does not increase long-term happiness much.

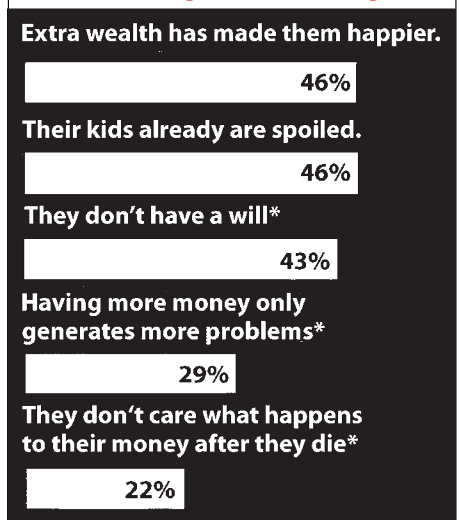
Tom Wolfe, the author of the *Bonfire of the Vanities*, does not find this difficult at all to understand. Wolfe's theory is that life is all about status and we will do anything to preserve our self-assigned place on the social pecking order. This means working harder and worrying more about how to keep up with the Jones'. But getting more money leads to what Gregg Easterbrook, the author of the *Progress Paradox*, terms the 'tyranny of excess choice' – we have too many things to choose from and too many things to buy. We worry endlessly. How can we decide on which digital camera to actually buy?

Our deepest worry today is that all this is really a house of cards. We fear that our bigger cars, bigger houses and greater consumption cannot be sustained. The higher the building the more unstable the foundation seems. Every generation looks back longingly to their parent's time, the "Golden Age" when things were simple and problems manageable.

The reality is the world was not as simple then nor is our world a house of cards now. Things will change but they won't collapse. Productivity will increase, jobs will be created and incomes will rise. I hope I am not whistling past the graveyard on this but we have never had it so good. Our incomes are higher, we are better educated, our health care system, albeit wildly expensive, is also wildly good and we have physical possessions beyond the imagination of anyone just a generation ago. And yet we worry excessively about keeping up and staying on the treadmill. A shame.

George Kinder, the author of *Seven Stages of Money Maturity* and one of the pioneers of the financial life planning movement, asks every client a simple question: if you were told you will be in good health the next five years but then contract a serious illness and die suddenly, what would you do with your life? The answer is probably not, try to make more money. It is probably to focus more on family, love and community.

Wealthy Clients Say



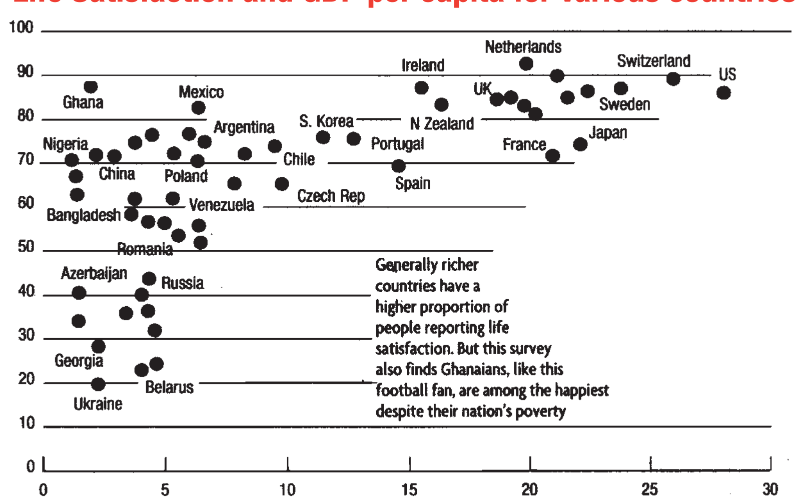
*Respondents with more than 10 million in investable assets

Source: Barron's

But it is a lot easier to make money than to try to figure out the meaning of your life... until it is too late.

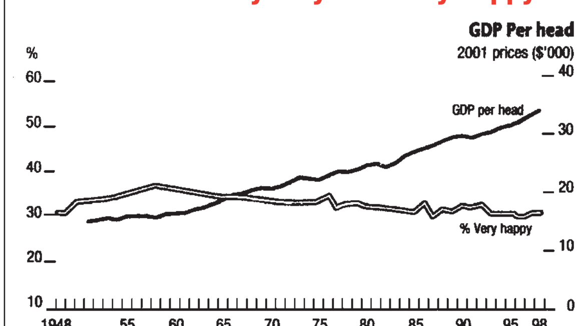
The good news in this story is that older people have the best sense of well-being, happiness and satisfaction of any age group. Maybe they have achieved all they want or made peace with what they cannot accomplish. *In the PNC survey above*, respondees are grappling with the money issue. Only one half say extra wealth makes them happier and one-quarter say having more money only generates more problems. But only slightly more than half have a will. And these are people with an average of $10 million each! Go figure. Net worth is important in life but remember self worth is even more so.

Life Satisfaction and GDP per capita for various countries



Source: Financial Times

Americans who say they are "very happy"



Sources: Gallup; General Social Survey; BEA; R. Layard; World Values Survey, 'Life Satisfaction' (UK Cabinet Office 2002)

Picture by Reuters

Source: Financial Times

Retirement Report . . .

Yes, all this will be on the exam . . .

THIS IS TAKEN FROM THE *Wall Street Journal*'s "Great American Retirement Quiz" which appeared in a special section on December 20, 2004. Interesting? Scary? Reassuring? You be the judge.

What are the average ages at which men and women retire in the U.S.?

Men	*Women*
a. 61	*a. 61*
b. 62	*b. 62*
c. 63	*c. 63*
d. 64	*d. 64*

Answers: B (men) and A (women). The exact figures, based on labor-force data for 1999 to 2004, are 61.6 for men and 60.8 for women, according to research by Murray Gendell at Georgetown University. While those ages have fallen significantly in the past five decades (men and women in the early 1950s stopped working at age 67, on average), the percentage of adults age 60-plus in the nation's labor force has been increasing in recent years. That change suggests that average retirement ages may be starting to bottom out and could begin to rise in the near future.

If you retire at age 65, what percentage of your life can you expect to spend in retirement?

a. 16% b. 18% c. 20% d. 22%

Answer: D. An American who reaches the age of 65 has an average additional life expectancy of 18 years. Thus, if you retire at 65 and die at 83, you would have spent 22% of your life in retirement. And remember, 18 years is the average life expectancy; half of those who reach age 65 can expect to live longer than 18 years. **The point:** Many people continue to significantly underestimate their life expectancy – and the risk that they will outlive their retirement savings.

What percentage of workers in the U.S. say they or their spouses are currently saving for retirement?

a. 48% b. 58% c. 68% d. 78%

Answer: B. Put another way, about four in ten workers currently aren't saving for retirement. Those figures have remained fairly constant in recent years, according to the Employee Benefit Research Institute, despite efforts at educating the American public about the importance of saving for retirement.

What percentage of workers age 55-plus report having $100,000 or more in savings and investments (not including the value of their primary residence)?

a. 16% b. 26% c. 36% d. 46%

Answer: B. Only about one-quarter of older workers have $100,000 or more in savings and investments according to the Employee Benefit Research Institute. More than one-third (34%) of workers age 55-plus report having less than $50,000 in savings and investments.

To date, what is the median amount of money that baby boomers have inherited from their parents?

a. Less than $50,000
b. $50,000 to $100,000
c. $100,001 to $150,000
d. $150,001 to $200,000

Answer: A. According to a study by AARP based on the Federal Reserve Board's Survey of Consumer Finances, the median inheritance as of 2001 is $47,909 (in 2002 dollars). The research also showed that only 15% of baby boomers now expect to receive an inheritance, down from 27% in 1989. "For most people," the study concludes, "inheritances will remain an elusive, or small, contributor to their retirement security."

What is the approximate average annual cost of residing in an assisted-living facility or a semiprivate room in a nursing home?

Assisted living	*Nursing home*
a. $30,000	*a. $30,000*
b. $40,000	*b. $40,000*
c. $50,000	*c. $50,000*
d. $60,000	*d. $60,000*

Answer: A (assisted living) and D (nursing home). When asked what source they would use to pay the bulk of long-term care costs, 31% of respondents in a study by MetLife Inc. listed Medicare, health insurance or disability insurance – none of which actually cover the cost of long-term care.

What percentage of current workers say they expect to work for pay in some capacity after they retire – and what percentage of current retirees say they have, in fact, worked for pay at any given point in retirement?

Current workers	*Current retirees*
a. 38%	*a. 32%*
b. 48%	*b. 42%*
c. 58%	*c. 52?*
d. 68%	*d. 62%*

Answers: D (current workers) and A (current retirees). Although two-thirds or more of current workers regularly tell researchers that they plan to earn a paycheck in later life, only about one-third of current retirees actually have done so. **The point:** "It is unlikely that all of the workers who would like to work in retirement will be able to do so," concludes the Employee Benefit Research Institute. "Many will find themselves unable to work for health reasons."

At what age do Americans qualify for full Social Security benefits?

a. 65 b. 66
c. 67 d. Varies by year of birth

Answer: D. Uncle Sam is gradually increasing the age at which individuals become eligible for full Social Security benefits. For those born in 1939, full retirement age is now 65 years and four months; for those born in 1940, full retirement age is 65 years and six months. Eventually, full retirement age will level off at age 67 for people born in 1960 and later.

That said, almost one-third of today's workers, according to a survey earlier this year by the Employee Benefit Research Institute, still believe they are eligible for full Social Security benefits at age 65 – and one in five believe they qualify for full benefits before 65.

What is the average monthly Social Security payment for retired workers?

a. $950 b. $1,450
c. $1,950 d. $2,450

Answer: A. In 2005, the average monthly benefit, including a new 2.7% cost-of-living adjustment, will total about $950.

What percentage of adults in the U.S. have a will?

a. 22% b. 42%
c. 62% d. 82%

Answer: B. That figure, from a survey this year by legal resource Martindale-Hubbell, is down from 47% in 2000. Some Americans appear to be postponing various aspects of estate planning, including wills, because of uncertainty about estate taxes. The estate tax is set to phase out in 2010 – and return in 2011 unless there's a permanent repeal.

The Coming Economic Transformation . . .

Horatio Alger, Where Are You ?

GLOBALIZATION HAS LONG been heralded by economists as a win-win situation. This conclusion has its roots in the work of 19th century economist David Riccardo who pioneered the theory of comparative advantage. This concept basically states that countries gain more than they lose when they trade with each other and specialize in what they do best. The loss of textile manufacturing jobs in the US, for example, is more than offset by the gain to consumers from lower t-shirt prices at Walmart and the growth in higher paying jobs at companies where the US holds a comparative advantage

But the recent trend of offshoring white collar jobs has many economists rethinking Riccardo's conclusions. Compared to the massive trade induced job losses that occurred in our manufacturing and agricultural sectors, the current wave of white collar losses seems trivial. But the small numbers so far should not be taken lightly. Historically, America's ability to "stay ahead of the pack" was based on our design and development skills. True, mass manufacturing of cell-phones, semiconductor chips and home appliances took place in Asia but the value-added design work occurred here at home. At its core, our competitive advantage in the post-war period has been dependent on our large pool of college educated, skilled workers. But technological developments in telecommunications and the growing ranks of college educated workers abroad means there is now one global market for skilled labor. Increasingly, technology products are being designed in Taiwan, x-rays read in Bangalore and financial statements interpreted in Seoul.

A number of factors will likely make the current transformation one of the largest in our economy's history. First, consider that the ratio of American to Indian incomes today is more than ten to one. Wage rates in places like India and China will rise dramatically over the next several decades but they still have a long way to go to catch up. Second, a particularly large percentage of the American economy will feel the direct threat of foreign competition in services. At its height manufacturing represented 28% of all non-farm employment. Today, 83% of all jobs are service-related. Most jobs that extensively use computers and telephones could be vulnerable.

The economic dislocation will also impact the way Americans approach and view work. Historically, the US economic system was based on the idea that anyone, if they worked hard, could get ahead. In recent decades, this meant a college education, getting a job with one of many large corporations, working hard and rising through the ranks. But the road map for success has changed. First, consider the cost of higher education. Total expenses for the 2004-2005 academic-year at private colleges in the US increased almost 6% to $27,516. And according to the *Economist*, three quarters of the students in our top 146 colleges come from the top 25% of the nation's wealthiest socio-economic group. These statistics call into question the idea that all Americans have an equal shot at getting ahead.

The idea of life-time employment with one firm has also been obsolete for some time. Stiff competitive conditions and rising benefit costs mean that companies are on a constant search for labor saving technologies. Layoffs now tend to be long-term rather than motivated by cyclical downturns.

True, economic developments over the last several decades have not been all bad. Twenty years ago, the median household income totaled about $38,000 compared to $43,000 today. But with the higher incomes has come decreased job security.

Moving forward, economic success will be based not just on a willingness to work hard but on skill levels, training and most importantly flexibility. Unfortunately, our ability to mitigate the impact of the coming change will be compromised by cyclical headwinds. Falling productivity gains, rising benefit costs (especially healthcare) and an aging population will make funding career transition and retraining efforts difficult. But these will be more important than ever. Standing in the way of globalization has never been a successful strategy. As always, we need to recognize the magnitude of the challenges we face and focus on strategies to deal with them.

– Anne Williams Doremus, CFA

WHEN WHITE-COLLAR JOBS GO ABROAD

GAUTAM SINGH/AP/WIDE WORLD

Trade economists are struggling to reconcile traditional theories with emerging global realities. Three new worries:

HIGH-SKILL WAGE SLIDE
The development of a global market for white-collar workers could undercut the wages of highly skilled Americans for the first time

COMPANIES TAKE ALL
If globalization cuts pay for both white- and blue-collar workers, a majority of the U.S. workforce could lose out, leaving employers and shareholders as the prime beneficiaries

A BLOW TO GDP GROWTH
If cheaper white-collar labor slashes the prices of exports in which the U.S. has a comparative advantage, such as software, the economy overall could suffer

Source: Business Week