

Thoughts from

Hanson Investment Management Inc.

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Vacation Idea . . .



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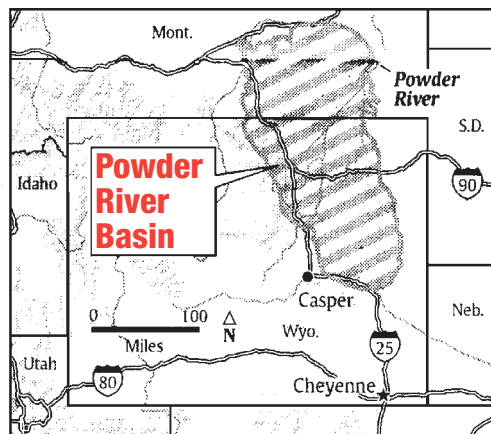
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Hanson Investment Management is an investment counsel firm managing portfolios for individuals and institutional clients. The firm also consults with individuals on financial planning and works with self-directed retirement plans on investment options.

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IT'S WINTER IN Vermont. Thoughts turn to powder skiing and the warmth of the Caribbean. How about the Powder River Basin, Wyoming? I don't think this is at the top of most people's vacation list but I would jump at the chance to visit a coal mine there. Yes a coal mine!

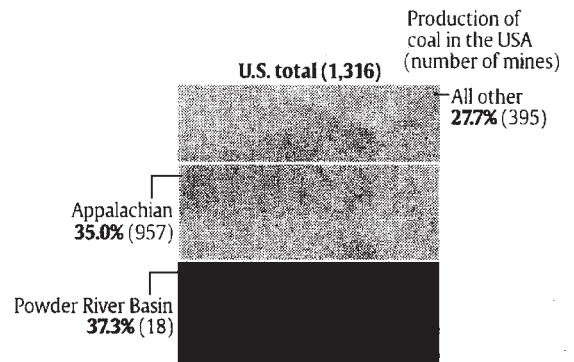
When we turn our lights on we rarely think, where does this all come from? Half of all of our electricity is produced from coal, and 40% of this coal is from one small area, the Powder River Basin in Wyoming. Sixty coal trains a day each of them a mind boggling one and a half miles long move coal out of the region. The rail line into and out of the Powder River is the most heavily traveled rail line in the world and you can be sure the FBI knows this and is watching it closely for terrorism. The reason Powder River coal is so hot, so to speak, is it is inexpensive to get at and has five times less sulfur than West Virginia coal.



Source: ESRI

Mining Coal

The Powder River Basin in Wyoming and Montana produced 37% of U.S. coal supplies in 2003, and has increased its market share since then.



Source: USA Today

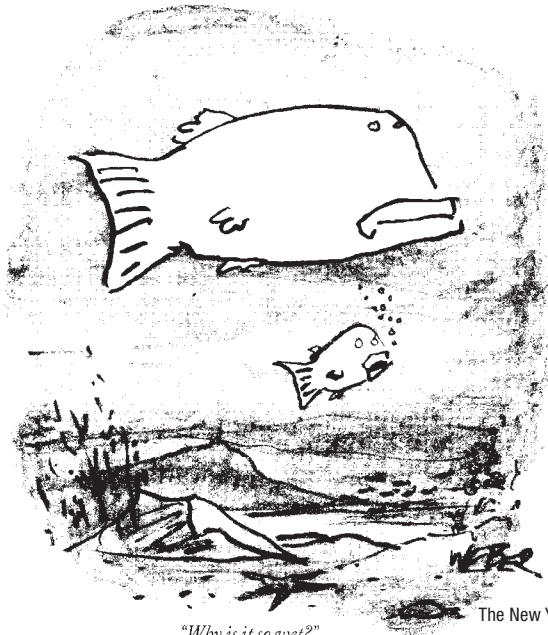
I think it would be fascinating to see eight-story drag lines carving away at seventy-five foot seams of coal and three-hundred ton trucks moving it. But the Powder River begs another question and that is, is our energy consumption today over the top and bordering on the obscene? Don't we need to get more serious about reining all this in? Coal is one of the few energy sources we are in control of. There is enough coal in the Powder River Basin alone to supply our entire national need for the next 100 years. But this does not come without costs and is not fool proof. The environmental effects are significant. Take coal dust for instance. Last Spring the dust thrown off by the coal trains mixed with sleet and rain to form a slurry which derailed trains and dislodged tracks. The subsequent supply dislocation was felt across the country. Our economic engine is indeed a marvel but shouldn't forget all the costs.

USA TODAY

Our World in the Cartoons . . .



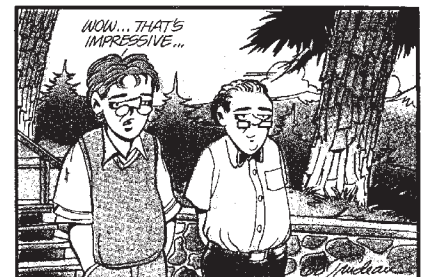
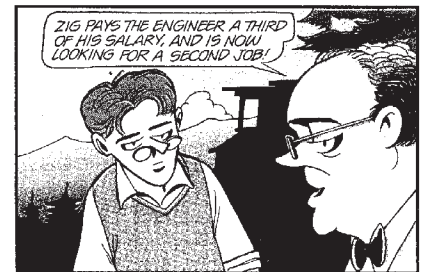
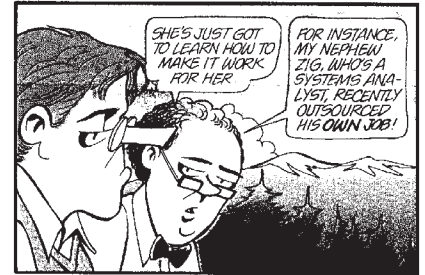
This one is funny and also very perceptive. The European scientist Albert Szent-Györgyi noted that discovery is about "seeing what everyone else sees but thinking what no one else has thought."



"Why is it so wet?"



By Chan Lowe, Sun-Sentinel, Fort Lauderdale, Tribune Media Services



Doonesbury — Gary Trudeau

The U.S. Economy . . . Now just take a deep breath . . .

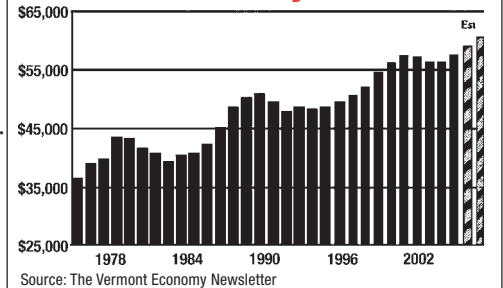
IT IS HARD TO READ THE business page today and not get depressed. Outsourcing is claiming all our jobs and everything eventually is going to be made in China. The best you can say about us is we are in for a long period of graceful decline maybe like the British the past 100 years.

But wait a minute. Step back and take a deep breath. The numbers don't look bad and in fact they look pretty good. Vermont is no economic world beater. We tend to be at the end of the economic pipeline. But inflation adjusted median Vermont family income

has fallen five years in a row. Whole sectors of the job market have suffered from globalization. It is going to take a lot to resuscitate the economic life of the 40 to 50 year old high school educated manufacturing worker who is being laid off today. There are no easy answers here.

But Thomas Freidman says that globalization will be more a plus for us than a minus. How so? It is because America has the knowledge workers who will continue to invent and discover. Look at Ebay, look at Google, look at iPod. We drive the creation, we drive the product and we drive the spin offs. Only

Inflation-Adjusted Median Vermont Family Income



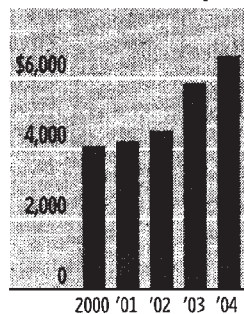
challenges. India has been the prime beneficiary of service sector outsourcing. But India does not have an unlimited supply of talented graduates. In fact their higher education system is quite antiquated. The country produces 3 million graduates a year but most are not employable on the global stage. Turnover is running 20% a year and pay is jumping as demand for qualified applicants is greater than the supply. We don't realize how expensive it is and how long it takes to create a developed economy infrastructure, whether we are talking roads, health care, clean water or higher education. We have our problems here but the rest of the world has its share too. Twenty-five years from now my bet is real income will be higher in the U.S., real GDP will be higher and yes, the stock market will also be higher.

Looking for a Few Good Workers

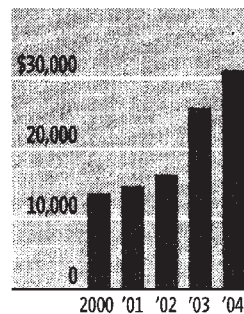
Rising labor costs are eroding India's competitive edge, as it gets harder to find suitable recruits to meet companies' appetite for service-sector workers. Right, annual wage growth for two occupations:

Sources: India's National Association of Software and Service Companies (Nasscom); McKinsey Quarterly
Source: Wall Street Journal

Entry-level software developer



Project manager



has increased 58% over the past twenty nine years, the period that roughly corresponds to the rise of China. My guess is overall U.S. figures mirror this record.

What accounts for the good performance? Productivity is one thing. We produce more per hour of work each year and this figure has been going up not down. Also we have relatively low taxes – yes you heard me – relatively low taxes. *The chart at the bottom* shows that total taxes as a percent of GDP is one of the lowest among developed countries. Also we have welcomed immigrants both at the top end, the best and the brightest and at the bottom too, something which has helped us keep costs down.

Is all this going to continue? There are certainly plenty of questions. Paul Krugman, the economics columnist in the *New York Times*, notes that real median household income in the nation

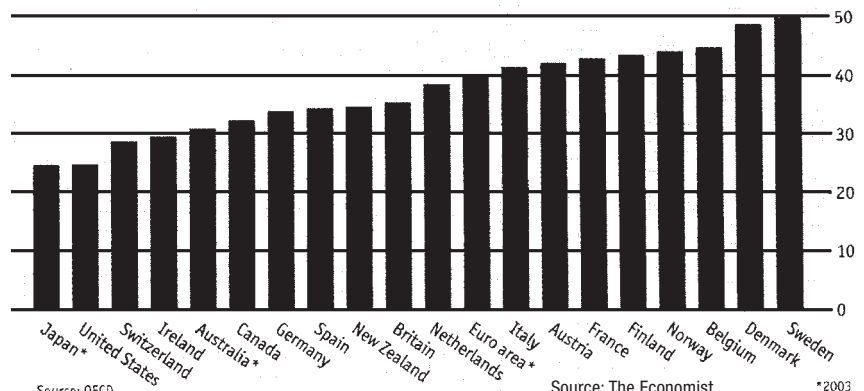
if we lose our edge in invention and discovery will the economy decline.

Remember also that outsourcing is not a ski jump type chart without its

Total Tax Revenue as % of GDP

Sweden's government collects more tax revenue relative to the size of its economy than any other rich country. According to the OECD, Sweden's government took in the equivalent of 50% of GDP in 2004. That is almost twice as high as the total tax revenue in America and Japan, which both collect around 25% of GDP. In the euro area, tax revenue, on average, reaches 40% of GDP.

2004, estimate



The World Scene . . .

The Other Side of China's Booming Economy . . .

IT IS EASY TO SEE WHY CHINA'S booming economy remains front page news. For most of the last twenty years, the country has increased output by over 8% per year. This growth rate is more than twice the level achieved by the U.S. economy since the end of World War II.

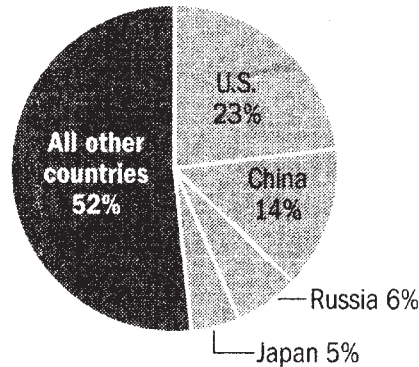
But recent news of a chemical plant explosion in the northeastern city of Harbin shed some much needed light on the cost of China's growth. The resulting chemical spill contaminated the Songhua River and the drinking water of 9 million residents in the surrounding metropolitan area. The size of the spill, and the plant's location just upstream from the Russian border, caused an international stir. Unfortunately the event was not an isolated one. Chinese officials report that up to 25% of the country's groundwater is polluted and that approximately 50% of the water in its 7 largest rivers is unusable.

As anyone who has visited a major Chinese city can report, industrial pollution is also negatively impacting air quality. *Take a look at the chart above.* China is second only to the U.S. in production of greenhouse gas emissions. And unfortunately, the prospect of rising Chinese living standards suggests that the country will soon surpass us. To get a feel for the human impact of this, consider that an estimated 400,000 people die prematurely in China every year from diseases linked to air pollution.

Most developed countries are well aware of the trade off between economic growth and environmental protection. But China's particular situation seems to heighten the tension between these two goals. First, China's communist background was based on the idea of economic equality. But ironically, many of China's rural poor have not benefited from the country's rapid growth. Slowing the economy down to save the environment will mean fewer economic gains for fewer citizens and the very real potential of political unrest. China's sheer size further amplifies the problem.

By the Numbers

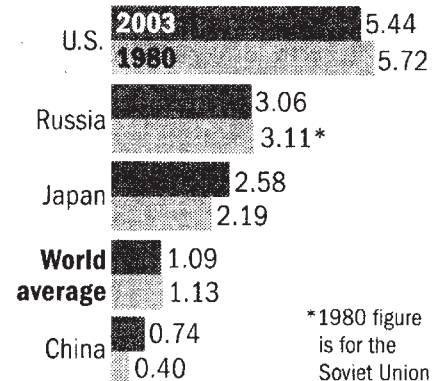
Global emissions
from fossil fuels, by country



Source: Wall Street Journal

Per-capita emissions

in metric tons of carbon equivalent



*1980 figure is for the Soviet Union

The population of China, currently 1.3 billion people, is expected to increase to 1.5 billion by 2020. But at the same time, its cities are growing and the amount of usable land and clean water is shrinking.

China's struggle to balance its competing economic and environmental goals will have a global impact. While water may be a local resource, air is not. According to the U.S. Environmental Protection Agency, 25% of the particulate matter in the skies above Los Angeles can be traced to China.

But I am not completely pessimistic regarding China's environmental outlook. No doubt the pressure to grow the economy will remain intense. But efforts to curb pollution are also evident. President Hu Jintao considers "sustainable development" a central part of his effort to make the economy more efficient. Further, the government recently passed a law requiring that 10% of China's energy come from renewable sources by 2020. And before we get too smug about our environmental ethics, consider the fact that fuel efficiency standards for new cars in China are now stricter than those in the U.S.

While top officials appear to be heading in the right direction, the real issue will be their ability to impose regulations at the local level. Up until

now, regulatory enforcement often left to local party officials has been spotty at best and subject to local influence peddling.

A number of companies will benefit from China's efforts to rein in pollution. The most notable example is probably General Electric. GE's environmentally friendly coal gasification technology and its wind and clean water businesses should do well in China. German conglomerate Siemens is also establishing a beachhead in the country by teaming up with the North China Municipal Engineering, Design & Research Institute. The joint venture will focus on developing solutions to the country's water and waste-water problems. Siemens anticipates that at least 800-900 new treatment plants will be needed in China by 2010 just to increase annual drinking water production by 3 percent.

Investors need to be wary when investing in China or any other developing market. Many companies have learned the hard way that there is a difference between satisfying market demand and making money. But companies willing to develop relationships with local partners and invest for the long-term will likely produce solid returns over time.

— Anne Williams Doremus, CFA