

Current Observations



When the U.S. Gets Back to Business

By Paul Sutherland, CFP®

I subscribe to the belief that “everything happens for a reason.” That’s why I’d like to highlight an interesting conversation I had recently, because in some ways it illustrates the current mood that’s prevalent in the U.S.



FIM Group, along with the Utopia Foundation (which I chair), are sponsors of the TEDxMaui event (www.tedxmaui.com), which will take place on January 22. A conversation started when I handed a TEDx postcard to a gentleman who knew of FIM Group’s and Utopia Foundation’s involvement with the event. He asked, “Why should I come?” I replied, “We hosted one in Michigan, and it was quite successful. We are hoping to get the thoughtful people on Maui together to meet and be inspired to ...” at which point he interrupted, and with a disposition much like Winnie the Pooh’s friend Eeyore said, “Paul, I have been here 13 years, and just like on the mainland I can tell you nothing changes here. You’re wasting your

time. Look around ... this is not going to do anything because the powerful control everything.” In my optimistic, Tigger-esque reply, I said that the event can spark great conversations about lessening Hawaii’s dependency on imports (95% of what is consumed on Maui is imported) by strengthening agriculture, entrepreneurship, energy and collaboration. He smiled and said, “Okay, I was planning on going anyway ... I’m over 65, so at least I get a discount.”

It seems like the pessimists have taken over and politically the blame game is in full swing. Democrats, Republicans, Congress, Wall Street, the 1%, the 99% – everyone’s concerned about pointing fingers at those who got us into trouble ... but nobody’s focused on how we can get out of trouble. I have news for all of you: We are powerful. The 99% is powerful, and the 1% is too. As a person of faith I have my own perception of “power,” but a professor at a Stanford Economics summit I attended in the early 1990s (sponsored by Auburn University’s Ludwig von Mises Institute) said, “Two things have power: people [collectively] and money.” His words have stuck with me for more than 20 years.

“Whether you think you can or you think you can’t, you’re right.”

– Henry Ford

Victims and Being Stuck

At a Complexity Theory conference I attended in Bavaria years ago, the seminar leader said quite simply, “Until a society, person, government, group or any collection of people gets beyond VICTIMHOOD, they can make no progress.” Though they are well-intentioned, many people perceive themselves as victims and fall into a self-defeating quagmire that fulfills Henry Ford’s saying about how we create our own destiny from our attitudes and thoughts.

Wired for Optimism

Business magazines like *Wired*, *Forbes*, *The Economist*, *Fortune*, *Harvard Business Review*, *Bloomberg Businessweek*,

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Entrepreneur, Inc. (and even my son Keeston's sports magazines and my wife Amy's women's and parenting magazines) all confirm that economic activity abounds domestically and globally, and there is ample business opportunity.

Ask Not ...

I study and research as part of my job, and I see business happening every day. America has great roots, and I am 100% optimistic that we will not fall like Rome. I am equally confident that our current malaise of debts, deficits and depressive attitudes will spark a renaissance here in the U.S., where we will pull together as a country working in the same direction. It might take a long time for some of us to quit fighting amongst ourselves, blaming each other and making ourselves out to be victims. Consider these four facts:

- **90% of Americans are working**
- **We have great educational institutions**
- **We have great wisdom and minds to work on solving our problems**
- **We know what needs to be done**

So not only do we acknowledge that something needs to be done, we have the tools to get things done. Eventually we'll get to work on the issues rather than merely complaining about them. Currently there are pockets throughout the U.S. and the world where a hard-working, responsible, common sense approach is working. The U.S. will get back to its roots of citizen responsibility and establish a new norm. As President Kennedy put it so eloquently, "Ask not what your country can do for you but what you can do for your country."

Culture Is Destiny

While the developing world has been mired in "developing" for many years, Singapore, with no natural resources to speak of, became a powerful example of what can be done successfully. Singapore's per-capita GNP is now higher than that of its former colonizer,

Great Britain. It has the world's busiest port, it is the third-largest oil refiner, and it is a major center of global manufacturing and service industries. And this move from poverty to plenty has taken place within one generation. In 1965, Singapore ranked economically with Chile, Argentina and Mexico; today, its per-capita GNP is four or five times higher (*Foreign Affairs* magazine).

"Culture is destiny" is one of the most famous quotes of Singapore's Patriarch, Mr. Lee Kuan Yew, who pushed, prodded and cajoled his tiny nation to what it is today. Imagine the wealth and potential that just sits in the U.S. and developed Europe. We've got great transportation systems, breathtaking infrastructure, education systems that needs some tinkering but still are the envy of the world, common law systems, educated people who want to work, patents, research labs, safety, security and, of course, hundreds of TV channels to choose from.

When the U.S. Gets Back to Business

The U.S. still is all business, and I think that's one reason we feel so lost right now. We know how to build things. We know how to get things done. In all my travels I have never heard anyone say that they have found a culture where "hard work" was more of a cultural phenomenon than in the U.S. We respect hard work. We idolize hard work. And our heroes, be they sport, entertainment or business, are respected for the hard work that got them there. We have always been able to work our way out of our problems like unemployment, underemployment and deficit issues. It will take a long time for the U.S. and Europe to work out their current issues, and that is okay because we are good at hard work. If you don't believe me, ask your friends this simple question about their success: "Are you successful because you invested time and hard work to get educated, to build your business or career, and sacrificed to save and live prudently?" We know how to work – 2012 will be a year of hard work. Historically, I can't find a time when it was easy for our citizens. Never in our history have we been able to "kick back" and relax as a country. Yes! We have

lots of problems, but give an average American a problem that can be solved with hard work, ingenuity and brain power, and we will seize the opportunity.

Investment Implications

Years ago one of my friends would roll out of bed at 4 a.m. to deliver newspapers. He was building his business and needed to help keep food on the table for his family, so he felt moonlighting was necessary. I ride my bike or run to work most mornings before 5 a.m., and I am always amazed at the fact that lights are on, cars are on the road, people are out getting to work and engaging in commerce. There's still lots to be done. We must realize that part of business' role is to create jobs (consider Ford's "fair wage so you can buy the car you build" philosophy) and our role is to work hard. All jobs are important. So our country's labor force will retool itself, or perhaps take "any job" while they wait for that perfect job, and our society will start to expect our citizens to accept responsibility. I see lots of entrepreneurial spirit at the local swap meets and farmer's markets where I like to go to with my kids. Will that woman who sells her homemade suntan lotion become the next Hawaiian Tropic? I don't know, but she is supporting her family, just like the guy who makes his own spice blends for grilling.

These folks are not sitting at home and feeling victimized like Eeyore. They are working, trying, not expecting someone else to hand them the job. The economy will keep chugging along. Businesses will succeed and fail, and this is normal. In 1974, when I had my Economics 101 class, we talked about the business cycle. Our instructor told us, "Business and the economy are cyclical – they have ups and downs. That's about all you need to know." Naturally, some businesses will thrive in the new economy, and the jobs of the future will be in those industries. A lot of this is common sense. It also is common sense that, as humans, we are a bit stubborn, but we will eventually "get with it" and work to build a great future for our families and future generations.

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How to Thrive in a ‘Lost Decade’

By Barry Hyman, MBA



As many investors have discovered, a “lost decade” is one in which the returns from stock market indices and most equity-oriented mutual funds do not gain ground on inflation. Investors in Japan’s stocks have experienced two such decades consecutively. Investors in the U.S. stock indices have experienced only one so far, but based on the current global economic climate, the U.S. may be at the beginning of its second decade.

Anemic equity investment results over such a long period can be attributed to various factors, but the two most common are: 1) Stocks priced very high at the beginning of the period (e.g., Japan in 1990, the U.S. in 2000 and the U.S. housing market in 2006); and 2) Economic malaise.

These two factors are often concurrent, but in the present case, while economic growth in the West faces huge headwinds in the form of paying down debts and deficits, historically overall stock prices are NOT expensive. Nonetheless, it is not unrealistic that slow growth will stagnate stock prices for many years.

Despite these headwinds and poor general stock market performance, some investors have still been able to achieve favorable results during these lost decades. How? In short, it has to do with selecting investments that not only

generate excellent cash flow despite slow economic growth, but that use their cash wisely – paying much of it out to shareholders as dividends and prudently reinvesting what they retain. And of course, as we have said repeatedly in previous newsletters, good returns come from avoiding investments in industries or companies with poor prospects – like banks, real estate and many finance, retail and manufacturing companies.

Making the right investments in a lost decade requires much patience and sound judgment. Let’s look at telecommunications companies like Vodafone, AT&T and SK Telecom. Despite a slowdown in global economies, people continue to make calls, expand their Internet usage and consume more communications bandwidth. These global telecommunications companies have all of the qualities that attract investors, including defensive businesses, barriers to entry for competition, attraction for skilled management and consistently growing cash flow. These companies also pay out a healthy portion of their cash flow as dividends while retaining a prudent amount of their earnings to reinvest in vital areas to ensure continued growth. The table below shows the dividend yields these companies paid to investors as well as their internal yields from which they pay those dividends, the

portion of those yields they pay out and their historic dividend payout growth rate. In an environment where the number of people retiring and needing retirement income is increasing dramatically, in which CDs and other savings instruments pay near nothing, in which even 10-year U.S. Treasuries pay 2% and in which interest rates are likely to remain low for a very long time, the appeal of investments like these telecom stocks is undeniable. It just makes sense to own these companies at their current prices, and there are many other global investments that possess these same qualities. Patient investors who embraced the fact that long-term investments will have day-to-day volatility and who owned the right investments during past “lost decades” had favorable results.

Incredible Decade

So let’s create a hypothetical 10-year investor who invests in the above-mentioned phone companies. We will assume that our three companies will

Company	Trailing 12-Month Dividend Yield	5-Year Dividend Growth Rate	Payout Ratio	Earnings Yield	Cash Flow Yield
AT&T	5.9%	5.28%	70%	7.9%	21.9%
Vodafone	7.7%	12.25%	58%	9.1%	14.7%
SK Telecom	6.64%	-1.3%	47%	15.1%	34.1%

Source: Bloomberg As of December 21, 2011

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just muddle along with no income or dividends growth for the next 10 years. If our investor invested \$10,000 in equal amounts in these three companies, he or she would collect \$5,830 in total dividends over those 10 years. If history serves as any sort of guide, it is rational

to assume that these companies will grow their income and dividends into the future, and our lost decade could end with more than just a decade of collecting dividends – it could end with our portfolios seeing significant growth and value, too. Vodafone is in many emerging markets, SK Telecom is in South Korea, and all three companies

should benefit as we get more and more of our entertainment, news and connections through the Internet. Regardless of the malaise currently facing the U.S. and developed Europe, many companies, industries and countries will have an incredible decade.

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