

## CHANGE HAPPENS

Change is so much a part of the investment markets and our lives. For example, ask your mother if she was happy cleaning your cotton diapers using a wooden washboard. The introduction of low-cost washing machines was a godsend. Some of us can remember refrigerators cooled by hand-delivered chunks of ice, not electricity. One of our employees has a wooden axle at home built in Minnesota by a family-owned company. The axle has been passed down in the family as a reminder of the permanence and persistence of change. Along with the buggy whip, change bypassed wooden axles. The inventor Charles Kettering said, "The world hates change, yet it is the only thing that has brought progress."

An email floated by recently with a great example of change. How old is Grandpa? Grandfather replied, "I was born before TV, penicillin, polio shots, frozen foods, Xerox, contact lenses, the pill. There were no credit cards, laser beams, or ball point pens. Man had not invented pantyhose, air conditioners, dishwashers, clothes dryers, and man had not yet walked on the moon. We never heard of FM radios, tape decks, CDs, electric typewriters, or yogurt. Ice cream cones, phone calls, rides on a streetcar, and a Coke were all a nickel. A nickel would buy enough stamps to mail one letter and two postcards. Gas was twenty-six cents a gallon." How old do you think the Grandfather was? This man was only fifty-nine years old!

The biologist Charles Darwin said, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." In layman's terms, today a peacock, tomorrow a feather duster.

McKinsey & Co. and The Leuthold Group did some great work on the direct and meaningful linkage of change to corporate America and the security markets. The Standard and Poor's 500 (stock) Index represents five hundred of America's largest companies; about 75% of the capitalization of all U.S. stocks. The Index was created in 1957. Today, less than 10% of the original companies remain in the Index. The rise and fall of corporate fortunes is amazing. No company's earnings or earnings growth rate are permanent. Creative destruction continues to accelerate. If history only repeats itself, it is estimated that by 2020 more than 375 companies in the current S&P 500 will be replaced by new companies that we do not know today.

Steve Leuthold, a long time Wall Street guru and head of The Leuthold Group said, "It is a huge mistake to assume that the great companies of today will continue being the great companies of tomorrow." He pointed out the familiar folly of prideful stock holders who give strict instructions to heirs to never sell a particular stock. Creative destruction is part of our capitalistic system. Cars replace horse-drawn buggies, airplanes replace trains, calculators replace slide rules, and the Internet terrorizes big-box retailers and newspapers. The journalist Carl Rowan said, "We believe in change because we were born of it, we have lived by it, we prospered and grew great by it."

Some interesting changes/facts from the U.S. Census Bureau and Karl Fisch/Glumbert.com that you should be aware of:

- The 25% of the population of China with the highest IQs is greater than the total population of North America. In India it is the top 28%. Translation: they have more honors kids than we have kids.
- China will soon become the largest English speaking country in the world.
- The U.S. Dept. of Labor estimates that today's children will have 10-14 jobs by age 38. One out of four workers today is working for a company for whom they have been employed less than one year.
- Name this country: richest in the world, largest military, center of world business and finance, strongest education system, world center of innovation and invention, currency-the world standard of value, highest standard of living. Answer: England in 1900.
- One out of every eight couples married in the U.S. last year met online.
- There were over 106 million registered users of MySpace as of September 2006.
- There are over 2.7 billion searches on Google each month. To whom were these questions addressed before Google?
- There are about 540,000 words in the English language. That is about five times as many as during Shakespeare's time.
- More than 3,000 new books are published—daily.
- It is estimated that a week's worth of the New York Times contains more information than a person was likely to come across in a lifetime in the 18<sup>th</sup> century.
- The amount of technology information is doubling every two years. For students starting a four-year technical or college degree, this means that half of what they learn in their first year of study will be outdated by their third year of study.
- Forty-seven million laptops were shipped worldwide in 2006. By 2023, a \$1,000 computer will exceed the capabilities of the human brain.
- The U.S. minority population has risen to more than 100 million, or about one-third of the total. Four states and the District of Columbia now have minority majorities.

### Conclusion—Change Happens

The charge for investment managers is to anticipate the future, profit from change and protect capital on the downside. Change demands a flexible investment approach, diversification, and selective concentration in areas of particular promise. We need to work constantly at building our clients' portfolios and keeping them fresh with new ideas that reflect the forces driving change. We need to guard against rigid thinking and keep our focus broad and flexible in order to suit meaningful trends. We need diversity in our thinking. This is particularly helped by employing seasoned portfolio managers who have learned from experience and younger professionals with creative and lively minds who are close to a fast-changing world. The ability to understand, adapt, cope, and prosper from change is what a good investment firm must offer clients.

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