

September 24, 2009

## If China Wins Who Loses?

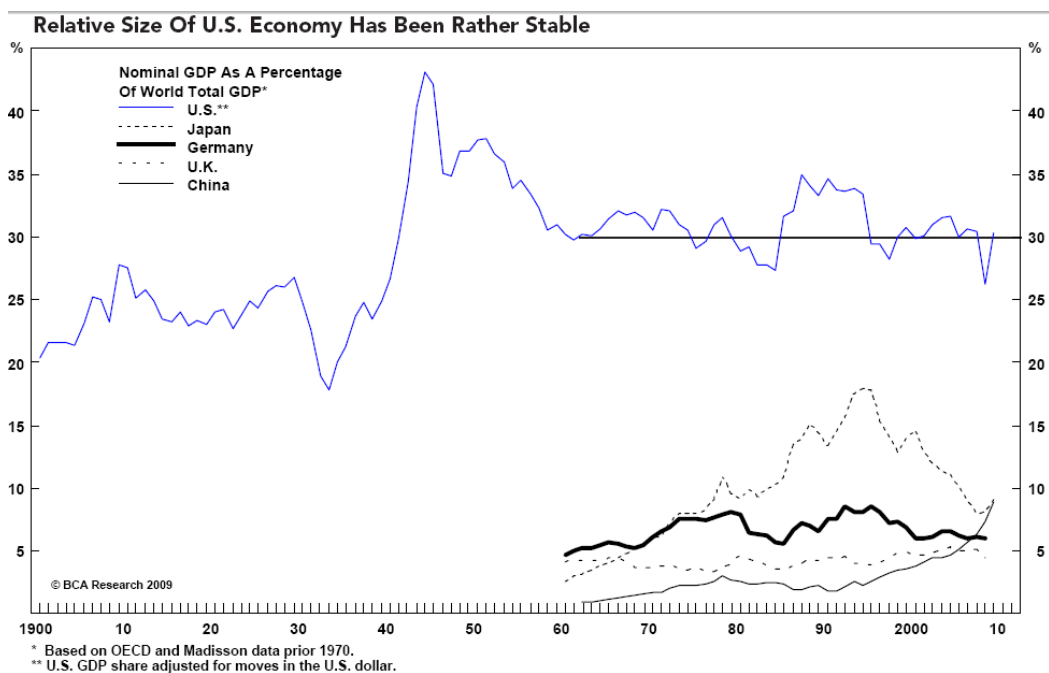
*We believe the growth in China is for real, but is that bad for the USA?*

As you know we have bought into the story that China can continue to grow its economy and continue to add to its population of middle class consumers.

Driving this long-term trend is the migration from the country-side to the cities and from government owned businesses to private ones. This trend has at least twenty years left to run and should result in some excellent investment opportunities.

But often this positive story is linked to a negative one: China's growth will come at our expense. "They are eating our lunch!" is the most common way of expressing this idea. We don't agree that China's success will necessarily hurt the US.

The US economy has been challenged before. The following chart shows how the world economy is divided between the top five economies. We think the long-term stability of America's share of world GDP might surprise those predicting our demise.

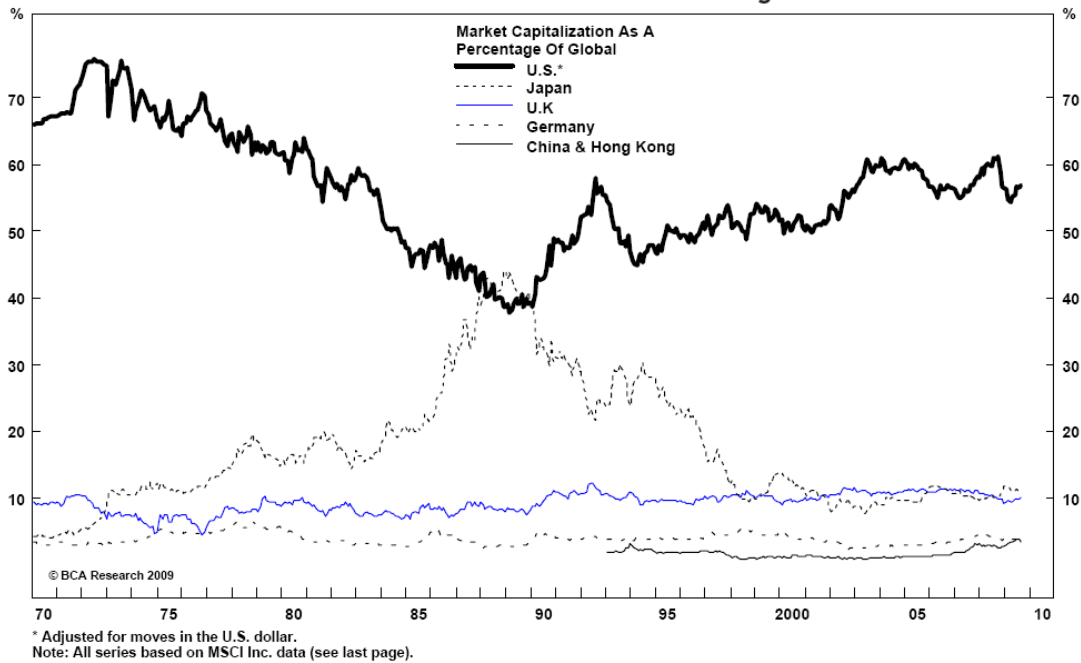


Following World War II, the US share of world GDP settled around 30% and remained there as Japan and Western Europe grew at very high rates. Remember the worry then? In addition to lower wages, "Their factories are new because the old ones were bombed--- we'll never catch-up!"

We think history will repeat.

But haven't foreign stocks done better than those in the US? Some have, but the next chart shows that the US market is far and away the largest and still trending up from 1990 when the Japanese market hit its high point.

Financial Markets: The Dominance Of The U.S. Has Not Been Challenged



We don't think China can make us poor, but we can do it to ourselves. The US government has proposed many ideas that would increase the cost of doing business here, and that won't help, but they remain proposals at this point and history suggests that we will muddle through.

In our last note we suggested that maybe most of the money to be made in 2009 was already in our accounts. That said, we continue to think we are in the early stages of a significant bull market.

Best regards,

Daniel A. Ogden