

FOCUS

Volume 17, Number 1 / January 2, 2004

***The opportunity
abroad***

Investing in foreign markets has always been part of our long-term strategy. Currently, twenty percent of our equity is allocated to non-U.S. markets. The same is true of sophisticated, institutional investors like public and corporate retirement plans and college endowments, although their percentage allocation may vary from ours, as well as among one another.

When we think of investing in foreign equities, the developed markets of Europe come quickly to mind. However, these developed markets do not appear to offer explosive growth in the future. One needs to look to the demographics of Asia to understand why it is from this part of the world we will experience explosive growth, probably for decades to come. The table on the following page provides a glimpse of the demographics in the countries we think of as Asia, with the U.S. included for comparison.

In the U.S., the aging of the baby boomers has led to tremendous growth in a number of industries, for example clothing, financial services, housing and healthcare. We can expect the aging of the youthful populations of Asia to give rise to similar trends in these countries, so long as their governments maintain policies that foster growth and support education. Without education, the youth of Asia could develop into a labor pool for low-wage jobs, rather than one trained to foster technological innovation and the advancement of literature and the arts. However, current trends are positive. Rising incomes, which have doubled since 1990, have given rise to the development of a strong middle class throughout much of Asia. This will lead to broad support for the education of their children, as well consumer-oriented

societies that are less dependent on exports for survival. In addition, the population migration from rural areas to urban areas, where there are more jobs, has increased the overall level of economic productivity in the region.

COUNTRY	AVERAGE AGE	MALE	FEMALE	POPULATION UNDER 30	POPULATION OVER 50
PHILIPPINES	24	50%	50%	66%	12%
MALAYSIA	26	50%	50%	50%	13%
INDONESIA	27	50%	50%	59%	14%
CHINA	31	52%	48%	30%	18%
THAILAND	31	50%	50%	52%	18%
SOUTH KOREA	32	50%	50%	47%	20%
TAIWAN	33	51%	49%	47%	21%
SINGAPORE	34	49%	51%	42%	24%
HONG KONG	35	50%	50%	39%	24%
USA	36	49%	51%	42%	27%
JAPAN	41	49%	51%	35%	38%

The growth and modernization of the Asian economies that we witness today are not without their risks and challenges. China, for example, is in the news daily, favorably and unfavorably. It is favorable that we in the U.S. are importing goods from China at prices far below their reproduction cost here. That trade is helping to keep inflation in this country under control. It is unfavorable that we are losing so many production jobs to China, as many U.S. corporations shift production there to take advantage of cheaper labor. At the same time, China's banking system is under the great strain of an ever-increasing mountain of bad loans. If not managed carefully, China's economy could collapse.

The development of Asian societies will be interesting to follow in the decades ahead. Their impact on the U.S. will be dramatic as our economies continue to become more intertwined with one another. The investment opportunities should also be fairly dramatic, although as always one must move with understanding and caution. ☒

(Data courtesy Matthews Asian Funds)

**Information
overload**

If you feel like you're experiencing information overload, a team of University of California, Berkeley, researchers has a good idea why. Worldwide information production has increased by 30 percent each year between 1999 and 2002, according to the team led by professors Peter Lyman and Hal Varian of the School of Information Management and Systems. "All of a sudden, almost every aspect of life around the world is being recorded and stored in some information format," said Lyman. "That's a real change in our human ecology."

According to the researchers, the amount of new information stored on paper, film, optical and magnetic media has doubled in the last three years. And, new information produced in those forms during 2002 was equal in size to half a million new libraries, each containing a digitized version of the print collections of the entire Library of Congress.

Among key findings in the report:

- The amount of new information stored on paper, film, optical and magnetic media reached about five exabytes—or 5 million terabytes—in 2002, compared to about half that in 1999.
- Some 92 percent of new information is stored on magnetic media, primarily hard drives.
- New information flowing electronically on radio, television and the Internet in 2002 totaled nearly 18 exabytes.
- The phone accounts for the largest percentage of information flow, with e-mail placing second.
- While original information on paper continues to grow, most comes in the form of office documents and mail—not books, newspapers and journals.
- North Americans consume 24 reams, or 11,916 sheets, of paper each year, while residents in the European Union

account for 15 reams, or 7,280 sheets.

- Peer-to-peer file sharing has exploded, and MP3 music files and digital video accounted for 70 percent of the files on the hard disks of users who participate in online file exchanges.
- Globally, the average Internet user spends 11.5 hours online per month, but the average Internet user in the United States spends more than twice that amount.

The researchers relied on various information sources and reports and conducted their own sampling of nearly 10,000 websites to help determine the Web's size and sources. They also studied desktop disk drives to learn how people consume Internet information. You can read an executive summary of the project at

<http://www.sims.berkeley.edu/research/projects/how-much-info-2003/execsum.htm>

and review the project findings at

<http://www.sims.berkeley.edu/research/projects/how-much-info-2003/execsum.htm#summary>

unless, of course, this is too much information for you.

***From our
Financial
Planning
Department:
The Health
Savings Account***

The recently enacted Medicare bill has something for the under-65 crowd. It's called a "Health Savings Account" (HSA), and is an entity into which funds can be stashed away for medical expenses. Its appeal lies in its tax-free status. Funds deposited into a HSA and funds taken out aren't taxed so long as they are used for health care expenses. Account owners can roll over unused funds from one year to the next. This feature makes HSAs more favorable than a "flexible spending" account, which has a use-it-or-lose-it limitation. Flexible spending accounts are currently offered by many large corporations to their employees.

Who is eligible for a HSA? You must have a “high deductible” health insurance plan, which equates to a \$1,000 deductible for an individual and \$2,000 for a family, plus caps for out-of-pocket expenses of \$5,000 and \$10,000, respectively. If you are young (and healthy, presumably), giving up your low-deductible comprehensive health insurance coverage in exchange for a high deductible plan so as to be eligible might be a worthwhile trade-off. If you are an “average” middle-aged, middle-income person, a generous company-sponsored plan might have some appeal. Employers can contribute to HSAs on behalf of employees, similar to 401(k) plans.

With the launch of the Health Savings Account set for this month, pre-tax contributions are limited to the health plan’s deductible, with a ceiling of \$2,600 for individuals and \$5,150 for families. If you need to take out funds for things other than health care expenses and you are under 65, you will get hit with taxes and a 10% penalty. However, once you reach age 65 the penalty goes away, but non-health care withdrawals will still be taxed. Initial reactions to the HSA from various segments of the population have been both positive and negative, not surprisingly. One thing is certain. The creation of the Health Savings Account adds further complexity to the financial planning arena.

Governmentium

A major research institution (MRI) has recently announced the discovery of the heaviest chemical element yet known to science. The new element has been tentatively named “Governmentium.”

Governmentium has 1 neutron, 12 assistant neutrons, 75 deputy neutrons, and 11 assistant deputy neutrons, giving it an atomic mass of 312. These 312 particles are held together by forces called morons, which are surrounded by vast quantities of lepton-like particles called peons. Since Governmentium has no electrons, it is inert. However, it can be detected

as it impedes every reaction with which it comes into contact. A minute amount of Governmentium causes one reaction to take over 4 days to complete when it would normally take less than a second.

Governmentium has a normal half-life of 3 years; it does not decay, but instead undergoes a reorganization in which a portion of the assistant neutrons and deputy neutrons exchange places. In fact, governmentium's mass will actually increase over time, since each reorganization will cause some morons to become neutrons, forming isodopes. This characteristic of moron-promotion leads some scientists to speculate that Governmentium is formed whenever morons reach a certain quantity in concentration. This hypothetical quantity is referred to as "Critical Morass." You will know it when you see it.

What we do

For the benefit of newer readers, and as a refresher for those of longer standing, we publish every other year or so a review of the services we offer and the type of clients we serve. In a nutshell, we manage broadly-diversified portfolios on a fee-only basis for wealthy individuals and family groups and small- to medium-sized institutional accounts such as foundations and retirement plans. For individuals and families, we also provide comprehensive financial planning services, both before we begin active portfolio management and thereafter on an on-going basis.

Our minimum account size is currently two million dollars. There are two important caveats to this statement, however. First, our long-term goal is an average account size of over two million dollars so that we can focus our attention on a relatively small number of accounts. For this purpose, an account may be either an individual or an entire family group. Second, we are far more interested in developing successful, long-term relationships than in maximizing current revenues. Therefore, we are always open to serving

almost any client if there is a high likelihood that there will be significant additions to the account over time, whether from asset sales, inheritance, savings or other sources.

We have several pieces of descriptive material that address the subject of our services and investment philosophy at significantly greater length. If you would like to receive this information, please either contact us or visit our website. And, if you know one or more individuals or organizations who fit our client profile and who may benefit from our services, we would greatly appreciate an introduction and welcome the opportunity to meet with them.

Inside Woodside


Literally inside. More specifically, inside our offices, which have just been renovated and expanded. We now even have (finally) a conference room, much to the delight of all here at Woodside, since until recently, we had to conduct “all hands” meetings in the hallway. We’ve also just redesigned our marketing materials and will soon have a new web site design as well.

We invite you to visit us in our “new” digs. In addition to a tour, we can even offer you an espresso or a latte.

And last, but certainly not least...

...A HAPPY, HEALTHY AND PROSPEROUS NEW YEAR TO ALL! ☒

WOODSIDE ASSET MANAGEMENT, INC.

Woodside Asset Management, Inc. is an investment management and personal financial counseling firm. Our investment philosophy is based on a time-tested strategy of diversification across six principal asset classes: cash, bonds, domestic and foreign stocks, natural resources, and real estate. The firm is registered with the Securities and Exchange Commission. All services are provided on a fee-only basis. Questions, comments and inquiries, whether about *FOCUS* or about the firm, are invited. Also, please visit our web site at www.woodsideasset.com for further information. 

Woodside Asset Management, Inc. is a wholly-owned subsidiary of Silicon Valley Bank, a Silicon Valley Bancshares company (NASDAQ: SIVB). Silicon Valley Bank serves emerging growth and middle-market companies in targeted niches, focusing on technology and life sciences, while also addressing other specific industries in which it can provide a higher level of service and better manage credit through specialization and focus. SVB Private Bank, of which Woodside is a part, offers a variety of specialized services tailored to the needs of company executives, entrepreneurs and other professionals.

The Bank has 11 offices throughout California and operates regional offices in Phoenix, Arizona; Boulder, Colorado; West Palm Beach, Florida; Atlanta, Georgia; Chicago, Illinois; Boston, Massachusetts; Minneapolis, Minnesota; New York, New York; Durham, North Carolina; Portland, Oregon; Philadelphia, Pennsylvania; Austin, Texas; Dallas, Texas; Northern Virginia; and Seattle, Washington. More information on the Bank can be found at www.svb.com

WOODSIDE ASSET MANAGEMENT, INC.

3000 Sand Hill Road 2/160

Menlo Park, California 94025

(650) 854-5100

www.woodsideasset.com

e-mail: info@woodsideasset.com

© Copyright as of the date on this publication, Woodside Asset Management, Inc. All rights reserved. *FOCUS* is published quarterly. The information in this publication has been obtained from sources believed to be reliable, but its accuracy and completeness cannot be guaranteed.