

FOCUS

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***Extra! Extra!
Read all
about it!***

Although our clients and some others of our loyal readers already know this, we are very pleased to announce that as of Tuesday, October 1, Woodside Asset Management, Inc. became a wholly-owned subsidiary of Silicon Valley Bank, a Silicon Valley Bancshares company (NASDAQ: SIVB). Silicon Valley Bank has long served the high technology, life sciences and premium wine industries as well as the companies which support them including the accounting, legal and venture capital communities. It has also had a private banking presence which until recently had focused primarily on deposit and specialized credit services. In seeking to expand its offering, the bank decided to move decisively into other areas of private banking. This transaction is a small but significant step in that direction.

Woodside will continue to offer the same portfolio management and financial counseling services as we have since 1987, with no changes in fee structure, investment philosophy or services provided by our staff. Going forward, we expect that the bank will add significantly to its other services for private clients. These could include investment opportunities, specialized deposit and credit offerings such as truly free checking and premium credit cards, online banking integrated with popular personal financial software, etc.

More importantly, the competitive landscape in our industry is changing rapidly as large financial institutions—banks, brokers, mutual fund companies, savings banks, insurance companies and large advisory firms—all seek to gain market share from each other by expanding their service offerings. In this environment, it is becoming increasingly difficult for smaller firms to compete—they simply don't

have the capital for marketing, recruiting and training, and research that is available to larger firms. A significant part of our commitment to our clients has always been that we would strive to ensure continuity over the years. We believe that our new partnership with Silicon Valley Bank will allow us to fulfill that commitment.

***Wealth and
Democracy***

“As the twenty-first century gets underway, the imbalance of wealth and democracy in the United States is unsustainable,” claims Kevin Phillips in his new book, Wealth and Democracy. He concludes with a warning that we are headed for a plutocracy—rule by the rich—or a shakeup by the middle class. Phillips also wrote The Emerging Republican Majority (1969) and The Politics of Rich and Poor (1990); both books had a significant influence on the Presidential campaigns that followed their publication. He hopes to start a dialogue for this fall’s mid-term election as well as the Presidential election in 2004.

Phillips chronicles American wealth from the days of George Washington, through the Gilded Age of the 1880s with Vanderbilt, Rockefeller, Carnegie, Astor and Morgan, and into the 1920s including the Fords, Mellons, duPonts and Joseph Kennedy. He compares our “Second Gilded Age” of the 1990s to earlier booms and busts and the ensuing repercussions felt in politics. He identifies three cycles (we are at the end of the third) in which a greater concentration of wealth and power is at the top. This “imbalance” of concentrated wealth at the top has always led to democratic reform, according to Phillips. The excesses of the Gilded Age led to the Progressive Era, those of the Twenties to the New Deal. In this third cycle, the average household cash income has remained flat through the 1980s and 1990s for all but the top 1%. He believes we are headed for a “New Deal” reform brought about by populist concerns over the lack of fairness and the disparity between rich and poor.

Throughout American history, Phillips argues, the wealthy have used money to buy influence and accumulate more money. Currently, three quarters of total political campaign contributions are from families with incomes above \$200,000 a year. Voter turnout continues to decline and is at the lowest level for the lower-income workers. The only Republican reformer in the mold of Theodore Roosevelt, according to Phillips, is John McCain. Phillips must be thoroughly discouraged with the Republican Party: after doing the research for this book, this former Nixon political strategist became a registered Independent.

Larry Kudlow, a former Reagan adviser, disagrees with Phillips and argues that the biggest weakness in Phillip's book is the failure to recognize the democratization of investment via the rapid growth in defined contribution plans, mostly 401(k)s and IRA's. However, concentrated holdings in single companies, single industries and even asset classes (e.g., U.S. stocks) have severely eroded or even wiped out individual retirement plans, thus rendering Kudlow's position somewhat moot and raising the level of economic pain for the middle class.

We believe that Phillips' warning of either a government ruled by the rich or political upheaval is worth noting. However, increasing tax rates to 91% as they were in the 1930s does not seem the likely answer. More likely alternatives will be to fund enforcement of the laws we do have and to create pension law reform to ensure that diversification of assets is a choice for 401(k)s and retirement plans. Unfortunately, making accounting and income tax rules simpler, which might have prevented many of the recent accounting-driven scandals, may be as difficult as instituting a flat tax.

Phillips would argue that we need much more regulation as well as higher taxes (including the reinstatement of the estate tax) to maintain infrastructure and improve education. However, the American people do not trust big government

any more than they trust the very wealthy. The American covenant is that every institution or individual must play by the rules, and the rules should be fair. Americans do not resent Bill Gates' billions; they just want to make sure it is not at their expense. If Americans think about it, we do want to be a classless nation. However, the overriding desire is the chance for the American dream and to help our children do better. Given the choice of wealth or democracy, Americans have always chosen both.

While we don't necessarily agree with his conclusions, we believe that it is important to be aware of the arguments that may shape upcoming political debates, particularly those that may impact taxes. Phillips' book is a provocative read, and we recommend it highly to anyone wishing to stay abreast of current trends in political thought.


China watch

Back in the late 1980s, when Japan was still a rising star (and a bubble about to burst), we ran a regular feature called *Japan Watch* in these pages. With the rapid emergence of China as a growing world power, we thought it would be interesting to relate some information we learned recently. From *Smartmoney.com* come the following factoids:

- China is poised to take over the world's manufacturing. Some 18 million people enter the work force each year. Typical wages are \$.60/day. Even Mexico is losing jobs to China. Individuals outside China will be displaced on a large scale.
- The notion that Chinese workers will begin replacing physical laborers elsewhere has long been a given. But the country is poised to replace the world's mental workers as well. China produces 700,000 engineers a year, 37% of all college graduates, all trained in a university system that is rapidly growing in size and quality. By comparison, the United States produces 65,000.

- Engineer pay ranges from \$4,800 to \$8,800 per year, plus medical costs, housing and pension benefits. As product design becomes more network-centric and less location-dependent, the competition for Western engineers will turn even tougher.

One significant implication of these trends was pointed out recently at an advisor roundtable we attended. Tim Tuttle of Asia Partners, an investment advisor focusing on China, observed that China is exporting deflation globally. Thus, manufacturers, both here and abroad, will continue to face enormous pricing and thus profitability pressures as the Chinese juggernaut continues to pound away mercilessly at industry after industry.

How do we defend against it? Hopefully, our ability to innovate will keep us in the forefront technologically. And, as incomes grow in China, so will the demand for luxury goods. From an investment perspective, our attitude is, “If you can’t beat them, join them.” We already have a portion of our foreign holdings concentrated in China, and we may increase it as we see attractive opportunities. In the meantime, as we learned from the Japanese experience and from our own more recent experience, there are limits to growth. China may not have found hers yet, and may not for some time. Nevertheless, we do not believe we should panic, or engage in trade or other restrictions, for the sake of saving inefficient industries. Except for industries that are critical for national defense, we think the economic notion of “competitive advantage” should dictate where things are best produced. 

*From our
financial
planning
department:
Congress gets it
right for once*

If you are 50 or older and participate in a company-sponsored retirement plan or contribute to an IRA, recent changes in the law may have created a gift for you. The so-called “catch-up” provision allows investors 50 and older to contribute a higher amount to a retirement account as compared to investors under 50. Initially, the concept for the provision arose from the fact that women are more likely than men to leave the workplace to raise children. Obviously, the consequence of being away from work in terms of its impacts on retirement savings is the missed opportunity to save. Hence, the “catch-up” idea was born. It is one of the more tangible benefits to come out of the 2001 Tax Act.

Here is how it works for participants of company-sponsored 401(k) and 403(b) plans and the like. The maximum contribution an employee can make to his or her retirement account this year is \$11,000. This does not include contributions made by the employer. The “catch-up” feature permits a person aged 50 or older to top off his or her regular contributions with an additional \$1,000, for a total of \$12,000. To take advantage of this benefit, the only requirement is that a person be at least 50 years old by the end of this year. It’s that simple. For employers, however, it is apparently not so simple with respect to implementation. Ultimately, the decision to adopt the “catch-up” provision lies with each retirement plan sponsor. If a company decides not to offer it, an employee is out of luck.

It works similarly for IRAs, but the “catch-up” limit is \$500. However, the base IRA contribution limit for all investors was increased to \$3,000. This means that an investor who turns 50 this year can contribute \$3,000 to an IRA, plus a \$500 “catch-up” contribution, for a total of \$3,500. The tax deductibility of a contribution still depends on several things, including one’s income level, participation in a company-sponsored retirement plan, etc. The “catch-up” provision is an attractive bonus for retirement savings, as is the increase

to the IRA limit, which is long overdue. The old \$2,000 limit had been around for 20 years.

There is yet more good news. Contribution limits are set to continue to increase over the next several years, both for company-sponsored plans and IRAs, in addition to the limits for “catch-up” contributions. We will provide regular updates along the way.

***Newspaper
headlines in the
year 2035***

Ozone created by electric cars now killing millions in the seventh largest country in the world, California

Spotted Owl plague threatens northwestern United States crops and livestock

Baby conceived naturally... Scientists stumped

Authentic year 2000 “chad” sells at Sotheby’s for \$4.6 million

Castro finally dies at age 112; Cuban cigars now legal, but President Chelsea Clinton has banned all smoking

George Z. Bush says he will run for President in 2036

35-year study: diet and exercise the key to weight loss

Average height of NBA player now nine feet seven inches

New federal law requires that all nail clippers, screw drivers and baseball bats must be registered by January 2036

Texas executes its last remaining citizen

Microsoft announces it has perfected newest Windows version... Crashes before installation completed

Inside Woodside

For your planning purposes, our offices will be closed on the following dates:

November 28, *Thanksgiving Day*


November 29, *Day after Thanksgiving*

December 24, *Christmas Eve Day*

December 25, *Christmas Day*

December 26, *Day after Christmas* 

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 Banking, 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

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