WOODSIDE ASSET MANAGEMENT

Focus

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Economic Growth and Tax Relief Reconciliation Act of 2001

Regarding the recently-enacted tax bill, we find ourselves asking a few questions: Will it live up to its name and in fact provide tax relief? Will economic growth be stimulated as a result of the changes to the tax law? To what extent might an individual taxpayer benefit? It is too soon to entertain these questions in earnest, as the experts on such matters are only beginning to grind through the text of the document. We have some thoughts, however.

The repeal of the federal estate tax is long overdue. We are pleased this day has finally arrived, although it is not until 2010 that the tax will be phased out entirely. Also occurring in 2010 will be the repeal of the generation-skipping transfer tax. The bad news is that because this legislation expires in 2011, everything will revert to the way it is now unless the changes are extended or made permanent.

The easing of ordinary income tax rates is certainly welcome as well, with the top marginal federal tax bracket of 39.6% being reduced to 35% by 2006. The bill also includes a provision for relief from the "marriage penalty," which will be phased in over a five-year period beginning in 2005. Not soon enough, but we'll take it. Our preliminary take on the "relief" question is that it appears to be on the way.

That leaves the issue of economic growth. Although tax rebate checks are scheduled to be issued by mid summer, perhaps the more germane question regarding economic growth is not *how much* growth we can look forward to, but rather, *when* will the economy shows signs of improvement? Consider the fact that the recently enacted changes to the tax law will be phased-in between now and 2009. Compare this to the length of time over which the tax cuts introduced by the Reagan administration were phased in: three years.

Admittedly, these tax cuts have the general *appearance* of "too little," regardless of the hard facts. Chalk it up to human nature. As to the question of "too late," particularly with regard to what would provide true economic stimulus, we leave you with this thought: "capital gains tax cut."

[This article was written for FOCUS by Nancy Daly, CFP.]

You ain't seen nothin' yet

Two items about the future caught our eye recently that we think may be of interest to our readers. The first was a précis of a forthcoming book (The Singularity is Near) by Raymond Kurzweil, author of The Age of Intelligent Machines and The Age of Spiritual Machines (available on the web at *www.kurzweilai.net/articles/art0134.html*). In this summary, Kurzweil argues very persuasively (as have others) that human knowledge is expanding at an exponential rate; he goes on to add that "machine" knowledge is expanding even faster. He predicts that by 2020, machines will be in use whose responses to and interactions with humans will be indistinguishable from those of a real human. Moreover, soon thereafter, machines will have the ability to map and record an individual's total memory and thought patterns. In other words, that human's mind could "live" inside a machine long after the body has passed on.

The second was an op-ed piece in *The Wall Street Journal* by Alvin and Heidi Toffler (Future Shock, The Third Wave) entitled "New Economy? You Ain't Seen Nothin' Yet." (*WSJ*, 3/29/2001). In it, the Tofflers review the "old economy/new economy" debate and conclude that we are only at the very beginning of a new era, both economically and technologically. The fact that many internet companies failed, for example, is to be expected: in the early years of the industrial revolution, thousands of start-ups failed because "...like today, their business models were wrong, their drive and optimism misdirected... Markets gyrated, and plenty of investors lost their money, to a chorus of I-told-you-sos." Their theories parallel Kurzweil's but go beyond. They argue that computer technology has brought about revolutionary biotechnical breakthroughs, and that in the future biotechnology will revolutionize information technology, resulting in a bio-digital convergence. And that "...will totally, once again, revolutionize economies. Together, these represent a turning point not just in economics, but in human history... The upheaval in the stock market is extremely painful. But we will look back on it as a minor spike in the early history of the new economy of the 21st century."

Sounds like we're in for a wild but rewarding ride.

Barbarians at the gate

Volumes have been written about the current energy "crisis" in California. We would like to add a somewhat unique perspective, courtesy of an article published in the May, 2001 issue of *American Spectator*.

During the 1930's, the great Spanish philosopher, Ortega y Gasset, described what he considered to be the "modern barbarian." This is a person who looks at a highly complex modern society and takes it to be a natural object. For example, a modern barbarian thinks that apples and oranges appear in grocery stores the same way as they grow on trees, "naturally." He does not appreciate the highly complex socio-economic network that makes such bounty possible, nor does he appreciate the network's fragility.

Flash forward to the new millennium. Faced with the current disruption in energy supplies, certain political factions are proving themselves to be modern barbarians. For example, according to these modern barbarians, the GOP now stands for "gas, oil and plutonium," in reference to the Bush administration's energy policy. That statement begs the question, Where do these individuals think energy comes from? The following analogy will help clarify the real issue.

The newspaper that you read this morning brought information from the four corners of the globe in less than 24 hours. Thousands of people are involved in the process, yet you probably don't know one of them. However, with a finally-tuned system of market incentives, not the least of which is the 50 cents you paid for the paper, the whole process works smoothly and invisibly. Our energy supply systems basically run the same way. Energy used to produce your morning paper likely came from fuels extracted thousands of miles away. It was transported, refined and distributed by people you probably don't know. How does all this happen so regularly and smoothly? The answer is the market pricing mechanism.

Let's apply the modern barbarian's proposed solution to the current situation and see what happens. The proposal is: (1) stop production of power plants that rely on oil, gas, or plutonium, and (2) stop paying power producers. All the energy we want will just "naturally" show up at our doorstep. What will happen if California or the Federal Government imposes price controls? Simple—other states and power generators will stop selling to California. Of course, the modern barbarian also proposes to force other states to sell to California and to apply price caps on those sales as well. What will happen then? People who produce electricity will find something more profitable to do. If you think this last statement unrealistic, consider that much of California's power comes from aluminum plants in Oregon and Washington that receive allotments from the Bonneville Power Authority. Beginning in the fall of 2000, the aluminum plants shut down their operations and sold their power allotments to California. Impose price controls and these plants will go right back to producing aluminum, exacerbating the current energy supply situation. Dozens of smaller, less efficient producers will certainly follow.

Imposing price caps will not produce a single megawatt of electricity. All it will do is further diminish supplies and send a signal to California consumers that they don't need to conserve energy.

California's energy shortage derives from 20 years of draconian restrictions placed on the construction of new power plants. As a result, the state now imports over 20 percent of its energy requirements. What would happen if all the other states and generators decided not to sell energy to California? Well, Governor Davis has another "solution." He has proposed jail sentences for power company executives who charge prices he or the legislature deems to be excessive or who refuse to sell energy to California at all. For a little historical perspective, when the Ayatollah Khomeini came to power in Iran, he immediately imposed price controls on all goods (read: capitalism is bad). Vendors who sold above the price caps had their feet branded with hot irons. As you can see, the term "modern barbarian" has not lost its meaning.

And you thought gasoline was expensive?

Recent prices from Webvan (6/12/2001):

Quart of milk	32oz for $1.05 = $ 4.20 per gal.
Diet Snapple	16oz for $0.79 = $ 6.32/gal.
Gatorade	64oz for $3.19 = $ 6.38 per gal.
Ocean Spray	64oz for $3.89 = $ 7.78 per gal.
Scope	34oz for $5.39 = $ 20.41 per gal.
STP Brake Fluid	12oz for $2.04 = $ 21.76 per gal.
Pepto Bismol	8oz for $3.64 = $ 58.24 per gal.
Vick's Nyquil	6oz for $5.39 = $114.98 per gal.
Whiteout fluid	.6oz for $ .89 = $189.87 per gal.

And this is the real kicker:

Evian water	16.9oz for $0.83 = $ 6.28 per gal.

$6.28 per gallon for **water**! So next time you're at the pump, be glad your car doesn't run on Nyquil, or Scope, or Pepto Bismol, or whiteout fluid, or Evian water!

FOCUS / *Vol. 14, No. 3* / *July 2, 2001*

English anguish

English is a tough language. Consider that English contains a vocabulary that is four times larger than that of the next most complex language, German (at least in terms of its lexicon) and six times more than that of French. But that's not all. Consider the following sentences:

- The bandage was wound around the wound.
- The farm was used to produce produce.
- He could lead if he would get the lead out.
- Since there is no time like the present, he thought it was time to present the present.
- After a number of injections my jaw got number.
- I read that the report on reeds was hard to read.

You get the idea—English is a crazy language. There is neither egg in eggplant nor ham in hamburger; neither apple nor pine in pineapple. English muffins weren't invented in England or French fries in France. Sweetmeats are candies while sweetbreads, which aren't sweet, are meat.

We take English for granted. But if we explore its paradoxes, we find that quicksand can work slowly, boxing rings are square, and a guinea pig is neither from Guinea nor is it a pig. And why is it that writers write but fingers don't fing, grocers don't groce and hammers don't ham?

If the plural of tooth is teeth, why isn't the plural of booth beeth? One goose, two geese. So one moose, two meese? Doesn't it seem crazy that you can make amends but not one amend, that you comb through annals of history but not a single anal? If you have a bunch of odds and ends and get rid of all but one of them, what do you call it? If teachers taught, why didn't preachers praught? If a vegetarian eats vegetables, what does a humanitarian eat?

In what language do people recite at a play and play at a recital? Ship by truck and send cargo by ship? Have noses that run and feet that smell? How can a slim chance and a fat chance be the same, while a wise man and a wise guy are opposites? How can overlook and oversee be opposites? Perhaps all the English speakers should be committed to an asylum for the verbally insane.

Inside Woodside

First, we welcome Pam deFigueiredo to the firm as a Client Relationship Manager (CRM), working directly with Bob and his clients. Pam's experience includes both trust and lending at University National Bank (now Comerica) as well as sales and marketing support for a project management firm. With Pam's addition, our CRM staff is back to full strength. Effective July 1, Nancy Daly became Director of Financial Planning and will head up that department as the first step in our reinvigorated effort to expand and improve our financial planning services.

Second, congratulations and best wishes to Tom Sedgwick, our trader, on his marriage to Kathryn Spain. After the ceremony and accompanying festivities in Ireland, they will be honeymooning in Bali. Ted Heilman is next in line: he and Amy Dover will tie the knot September 22 in Sonoma.

Third, we are about to go "live" with on-line account access for our clients and their advisors (CPAs in particular) via the "client only" area of our website. With the correct combination of user name and password (it will take two sets), they will be able to view their accounts as of the close of the prior business day, review transactions, income and expenses, and realized gains and losses for the year to date, and even export this information to other programs such as Excel. A future release will include the ability to view reports as of any date or date range as well as review account performance. Clients will receive a mailing in the very near future with full details as well as authorization forms to allow their other advisors to access their information.

Finally, we are very pleased to announce that in Bloomberg's 2001 Top Wealth Managers survey, Woodside

Asset Management was ranked 6th nationally in terms of average account size (*Bloomberg Wealth Manager*, June 2001). The magazine received 1,049 responses to its request for information and culled the list of finalists to 313. Eliminated from consideration were firms with less than $25 million under management, firms for which individuals constitute less than 50% of their client base, as well as banks, brokerage firms, trust companies, insurance companies, and their affiliates. They wanted only "leading independent financial advisers with wealthy clients." We are pleased to be in such select company.

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.

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