

Look Before You Give

Reflecting on significant themes that emerged during 2006, one of the good trends that deserves more attention is the growing awareness and commitment of philanthropic work around the world. Whether it is Warren Buffett pledging \$31 billion to the Bill and Melinda Gates Foundation or a friend deciding to provide a scholarship to underprivileged students in Africa, something good and personal is driving individuals to give back to our global community.

There have always been good people giving back to those less fortunate. Thank goodness. Today, however, it feels like something bigger and more prominent is happening that is inspiring more of us to participate in good causes. And, the causes are becoming more personal.

A great article on the subject of personal involvement recently appeared in the November 27, 2006 publication of Barron's Financial Newsweekly, "Personal Passions". The author, Suzanne McGee, provides numerous examples of individuals giving to causes that are more narrow in scope but have personal meaning. The so called "me" factor is being felt in all levels of giving. Active donors are favoring well-defined causes that stir them emotionally. Some are supporting fields they dreamed of pursuing earlier in life, while others are hoping to eradicate diseases that claimed the lives of a loved one.

McGee described a couple in their 70s that decided the nursing profession was an area that needed attention. They started a foundation that provides grants to projects that are helping nursing schools and hospitals to work closer together.

Another great story from the article tells the tale of an investment-marketing executive of 30 years who indicated the approach of her 60th birthday prompted her to begin "giving back" to society. She wanted to foster great communities like the one she grew up in. She chose Ghana, due in part to an honors thesis she had written decades earlier at Scripps College on the subject of pan-Africanism. She decided to adopt a village and set up a micro-finance program that extended business loans to the local women.

To make a long story short, after selling a car for \$18,000, she set off for Ghana in 2003. She found her village, Pokuase, and began working with the local women to become financially self-sufficient. Furthermore, this executive's initiative rubbed off on her friend and hedge fund manager, who was a self-proclaimed anti-philanthropist. The hedge fund manager was persuaded that if her friend could drop everything for this worthy cause, she would do more than just write a check. Last summer, her friend found herself boarding a plane for Ghana.

Another noteworthy theme of personal philanthropy is these philanthropists are willing to invest and promote new models and controversial causes. It is often cited that big breakthroughs come out of a committed donors willingness to embrace a potentially controversial idea or mission.

While it is interesting to read and envision ourselves in the village of Pokuase, helping local women find a way out of their dire situations, it is also very difficult and tricky to find the right organizations and people to give through.

summaries

While the amount itself is mind-boggling, one of the primary reasons Warren Buffet chose the Gates Foundation for his \$31 billion pledge was that the foundation was already scaled-up and that it wouldn't have to go through the grind of getting to a megasize like the Buffett Foundation would. Commenting further on the Gates Foundation, Buffett states "... life has dealt a terrible hand to literally billions of people around the world, and Bill and Melinda are bent on reducing that inequity to the extent they possibly can. You don't get an opportunity like that ordinarily. I'm getting two people enormously successful at something, where I've had a chance to see what they have done, where I know they will keep doing it - where they have done it with their own money, so they're not living in some fantasy world - and where in general I agree with their reasoning."

One hopes that the Gates foundation is off doing great things and spending their dollars wisely. Although, as it grows in size and importance to global causes, it is hard not seeing the foundation becoming more bureaucratic. Historically speaking, becoming bureaucratic is one of the huge problems that big organizations have. They deal more with governments and policies and less with local problems and needs.

A recent book by William Easterly titled "The White Man's Burden - Why the West's Efforts to Aid the Rest Have Done so Much Ill and So Little Good." Easterly writes about the twin tragedies of global poverty. The first, so many are seemingly fated to live horribly stunted, miserable lives and die such early deaths. The second, after fifty years and more than \$2.3 trillion in aid from the West addressing the first tragedy, there is shockingly little to show for it. We will never solve the first tragedy, Easterly argues, unless we figure out the second.

The book provides numerous examples of why the West has been so ineffective at solving the problems of the poor, while having the best intentions. What is most

interesting about Easterly is that he was an insider. He was a senior research economist at the World Bank for more than sixteen years. His irreverent attacks toward the bad policies and continuous behavior at aid-bloated bureaucracies like the IMF and the World Bank are thought provoking and sad at the same time.

What is most shocking is that we, the West, the "Planners", are not learning from our mistakes of the past. We continue to pump billions in aid to corrupt governments and "Big New Idea" policies that we know are not working. A lack of accountability and a dearth of local feedback apparently are not being addressed at these organizations.

Easterly strongly promotes more support and financial resources to the so-called "Searchers", agents for change in an alternative approach. Planners announce good intentions but don't motivate anyone to carry them out. Searchers find things that work and get some reward. Planners raise expectations but take no responsibility for meeting them; Searchers accept responsibility for their actions. Planners decide what to supply; Searchers find out what is in demand. Planners apply global blueprints; Searchers adapt to local conditions. Planners at the top lack knowledge of the bottom; Searchers find out what the reality is at the bottom. Planners never hear whether the plan got what it needed; Searchers find out if the customer (the poor) is satisfied.

A planner thinks he already knows the answers; he thinks of poverty as a technical engineering problem that his answers will solve. A Searcher admits he doesn't know the answers in advance; he believes that poverty is a complicated tangle of political, social, historical, institutional and technological factors. A Searcher hopes to find answers to individual problems only by trial and error experimentation. A Planner believes outsiders know enough to impose solutions. A Searcher believes only insiders have enough knowledge to find solutions, and that most solutions must be homegrown.

If your curiosity is aroused regarding these paragraphs about "The White Man's Burden" the rigor of Easterly's work will certainly cause you to think about the West's foreign aid policies.

On the other hand, you will be glad to know that Easterly drops in many small, locally based success stories of people and yes, organizations, that are making a difference and getting real results in helping those in need.

In summary, the desire to help and support those most in need seems indeed to be growing. However, it is important that we all do our homework regarding the charities and causes that we identify with. Once we have completed our homework, the probability of actually making a difference in peoples' lives will surely increase.

We wish you Peace and Joy this Holiday Season and a New Year of Health, Happiness and Prosperity.

Roger N. Steed
Chief Investment Officer

The Economic and Market Environment

In Sum: Global equity returns in 2006 appear poised to post their best performance in the last three years. Bonds should show solid, if unspectacular gains. Geopolitical risks appear to be stabilizing somewhat, save for the environment in Iraq. On balance, Central Bankers around the globe have been raising interest rates, but it would appear these rates are peaking. Economic growth has been stable, and inflationary pressures seem well under control. The US budget deficit fell I 2006. Modifications to both revenues and spending can be expected when the newly elected congress convenes in January 2007.

Geo-political: North Korea continues to share center stage with Iraq as unfolding events in those two countries occupy much of the developed world's attention. At this writing, North Korea was scheduled to resume negotiations over their troublesome nuclear operations with representatives from other interested countries including the US, China, Japan, Russia and South Korea. Given the unpredictable nature of the North Korean position, it is difficult to paint an outcome, but the North Koreans appear to have few options as restrictions placed upon them have had their desired economic effect. Iraq remains a cauldron. Six weeks after US elections and the release of a report on policy options by the Baker/Hamilton Iraq Study Group, no consensus has emerged as to how the US should proceed in that fragile country. In Iran, a perennial challenge to G7 foreign policy, a headline in the December 12, 2006 issue of the Financial Times of London "Scent of triumph may elude Ahmad-Nejad" indicates that country's volatile president may be seeing his popularity eroding, a development that would be welcomed in most of the world.

Economic: Economic nirvana for central bankers is non-inflationary growth. The US Labor Department reported unchanged prices in November, a welcomed development. Economic growth appears poised to continue as the US government announced industrial production moved higher in November after two consecutive months of declines. Global growth also appears relatively robust.

Monetary: The US Federal Reserve Board met in mid December and voted to keep interest rates unchanged. The European Central Bank did raise rates modestly. Other central bankers in the industrialized countries primarily have been raising rates, although the pace appears set to moderate. Risks between recession and inflation appear balanced at present.

Fiscal Policy: The US Budget deficit continued to contract and in November stood at \$75.6 billion versus

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interactive creative local independent personal
knowledgeable thoughtful ethical experienced

just over \$83 billion one year ago. As the new Democratically-controlled Congress convenes in January, a tone should be established that will mark the direction of revenues and spending for at least the next two years, coinciding with the remainder of the Bush administration term of office.

Equity markets: Global equity markets continued to post strong results into the latter part of December, as private equity investors and underperforming hedge funds moved liquidity into common stock investments.

Returns appear to be poised to post the best annual results in the last three years.

Fixed income markets: Interest rates continue range bound, as they have for most of 2006. This reflects the myriad geopolitical and economic cross currents over the past several months, punctuated by volatile energy prices.

Robert M. Bilkie, Jr., CFA
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