SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Investing for Tomorrow

Whether business or personal, physical or intellectual, realizing tomorrow's opportunities requires making investments today. Some investments, such as a factory or a formal education, represent significant costs of both time and capital. The benefits are higher prospective returns over extended time horizons. Existing physical and intellectual assets need to be maintained with continuing investments as they age. Asset age is one measure of the vibrancy of capital. While average ages vary widely by category, age trends provide some indication of the adequacy of ongoing investment levels. Investments in physical and intellectual assets have implications for investments in financial assets.

PERSPECTIVE

Fixed assets in the U.S. economy are identified by broad categories: equipment, structures (residential and non-residential), and intellectual products. Average ages of fixed assets are reported annually with a one-year delay. Chart I shows the trend in average ages for three broad categories of fixed assets over 50 years. The average age of private non-residential (i.e., business) fixed assets has remained in a relatively narrow range over this period. An implication is that the business sector has established and maintained fixed assets at an average age sufficient to generate acceptable returns over time. Private residential fixed assets (i.e., housing) displayed a similar pattern of age stability until 2007. The average age of government fixed assets has trended higher for 50 years.

Patterns of real net fixed investment are shown in Chart II. This measure adjusts for inflation ("real") and for assets that are depleted or rendered obsolete ("net"). Private non-residential investment is notable for its extreme variability over the past 20 years. This pattern reflects in part the impact of the economic cycle. Nevertheless, an implication is that business confidence likely has become more variable in the past 20 years. The pattern of private residential investment conveys the boom and bust of the housing cycle up to and following 2007, and explains the subsequent increase in average age seen in Chart I. The steadily rising age of government fixed assets suggests that annual levels of government investment have been insufficient. This also may indicate the magnitude of need for infrastructure investment.

CFO use of excess corporate cash has been surveyed over the past 10 years. As seen in Chart III, two trends have emerged more recently suggesting that business confidence has slipped – less spent on fixed assets, more saved for a rainy day. A continuation of these trends could result both in reduced profitability and in slower overall economic activity.

INVESTMENT IMPLICATIONS

Whether income, growth, or some of each, tomorrow's financial goals are reached through portfolio investments made today. The range of portfolio return opportunities is impacted in part by fixed asset investments made throughout the economy. Certain levels of investment will not guarantee outcomes, but insufficient levels may well limit them. Portfolio management capabilities require ongoing physical and intellectual investments particularly as technology disrupts markets with innovation. Amidst change, however, is the ever-present need to know one's goals, time horizons and tolerance for risk. These provide the foundation to successfully investing for tomorrow.

CHART I

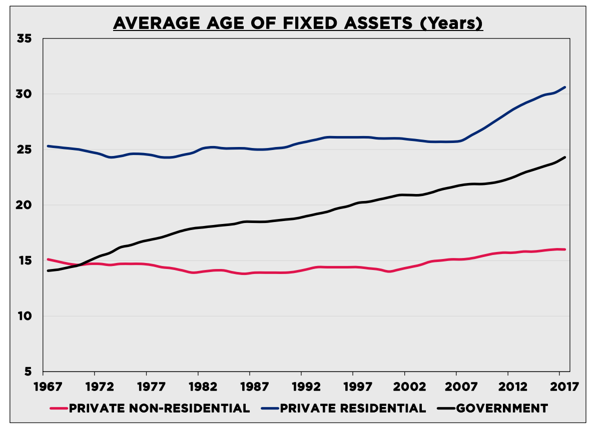

CHART II

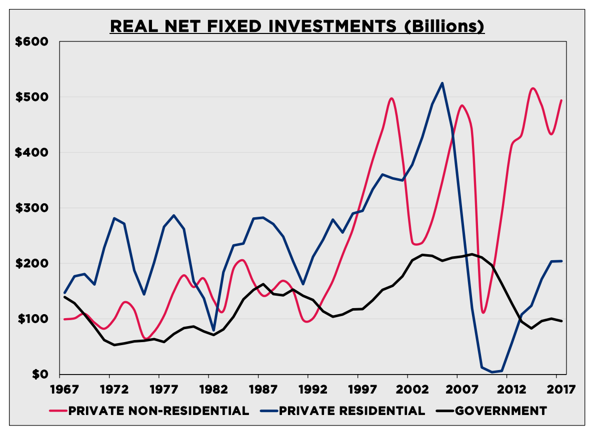

CHART III