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THE NEW GROWTH CYCLE

After years of consolidation followed by an extended period of stasis, growth stocks are back in vogue. Unlike the decades of the 1980's and 1990's when structural changes in the U.S. economy resulted in dramatic gains for technology-related firms as part of overall GDP composition and growth, from single digit percentages at the start of the period to high teens by the end of the second decade, we are now witnessing the transformation of a number of other economies as well. Specifically, as elements of capitalism take root in places like China, India, Eastern Europe and other parts of the world a number of these once moribund economies have sprung to life. Not surprisingly, the first beneficiaries of this worldwide growth were industries in the areas of basic materials, energy, construction, and some infrastructure. But as these economies transform, we are likely to see the next wave of restructurings impact higher order industries like semiconductors, communications, and consumer goods and services.

At the same time, two extremely powerful secular trends that began in the United States in the 1990's that continue to transform the domestic economy are being exported globally. The first of these is the requirement for near instantaneous access to information regardless of type, from anywhere, at any time; essentially the intersection of the internet, rich media, and unwired portability. And the second trend is the emergence of the digital consumer, perhaps best exemplified by the transforming nature of the Apple iPod. Thus despite the fact that several traditional technology markets appear mature, particularly here in the United States, changes are afoot in a number of these markets, and worldwide demand may well mask any domestic sluggishness. Add to this outlook a weak U.S. dollar and it should not be surprising to see a rising contribution from the international component of any global firm's sales base. Moreover, coming away from the collapsing market opportunities suffered in the early part of this decade, surviving businesses are generally better managed having had to learn how to wring profitability out of shrinking revenues.

All of this is too say that while many prognosticators seem fixated on a declining housing market in the US and the associated impact on consumer spending, we believe a subtle shift is taking place back toward capital spending and increasing exports of technology goods and services. These factors are responsible for our optimism over technology firms, and our anticipation of a new growth cycle that could have very attractive investment implications for the remainder of 2007 and beyond.

The Hangar 4 Investment Fly-By is an ad hoc publication intended to give our partners, and prospective partners, some insight into various themes that factor into our investment posture. Hangar 4 Partners LLC is an equity growth manager focused on technology, consumer product, and service companies. Michael P. De Santis and Bruce M. Lupatkin are the portfolio managers. For information regarding Hangar 4 Partners, please contact Michael P. De Santis, mpd@hangar4partners.com or Bruce M. Lupatkin, bml@hangar4partners.com.