

3rd Quarter 2013

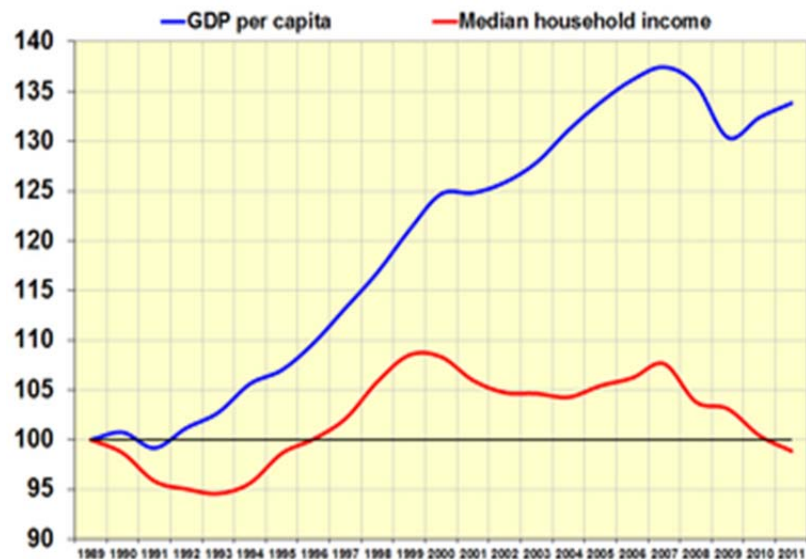
"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness,..." - Charles Dickens, 1859

Following a dispute with the publisher of the monthly literary magazine **Household Words**, Dickens launched a new weekly periodical, **All the Year Round**, with the first installment of *A Tale of Two Cities* which continued for another 30 issues. The new magazine included both fiction and non-fiction and covered international affairs as well as cultural topics, science and exploration. The new theories of Charles Darwin found their way into the magazine but curiously, the staff was instructed to avoid the subject of the American Civil War.

A Tale of Two Cities was one of two historical fictions written by Dickens. It juxtaposed events in France and England. While it highlighted the brutality of the French aristocracy on the peasantry, and the subsequent reprisals by the revolutionaries, it served as a warning to the English at the time of the dangers of oppression and inequality. Although staged at the time of the French Revolution, it was aimed at England's industrialization in the 1800's.

A Tale of Two Countries

As we enter the mid-point of the fifth year of this bull market, we thought it might be interesting to compare and contrast income and wealth disparities in the United States with the rising power in the east; China. A statistic that has been commonly used to illustrate the growing economic chasm between the rich and the middle class is real (inflation adjusted) median household income. At right, the red line does in fact demonstrate that real income for the median household in the United States has gone nowhere in the past 25 years despite a 35% rise in GDP per capita.



Another way of examining these trends is the Gini coefficient. This is a statistical measure where zero



would indicate perfect equality while one (or 100 percent) would mean that a single individual earned all the income within a country. The graph at left displays a sampling of countries compiled from data from the NBS, OECD and World Bank. While not utopia, the United States had a ratio on par with England and Japan. China, on the other hand, had a ratio closer to Nigeria and Brazil. Further, in the past twenty years, China's Gini measurement has deteriorated by seven percentage points while Brazil has improved by three. If one were to separate the urban and rural populations of China, the jump in the urban Gini goes up by a very Dickensian nine percentage points. By contrast, the United States' income equality has deteriorated by this measure, but only by 1.5 percentage points; similar to most industrialized countries

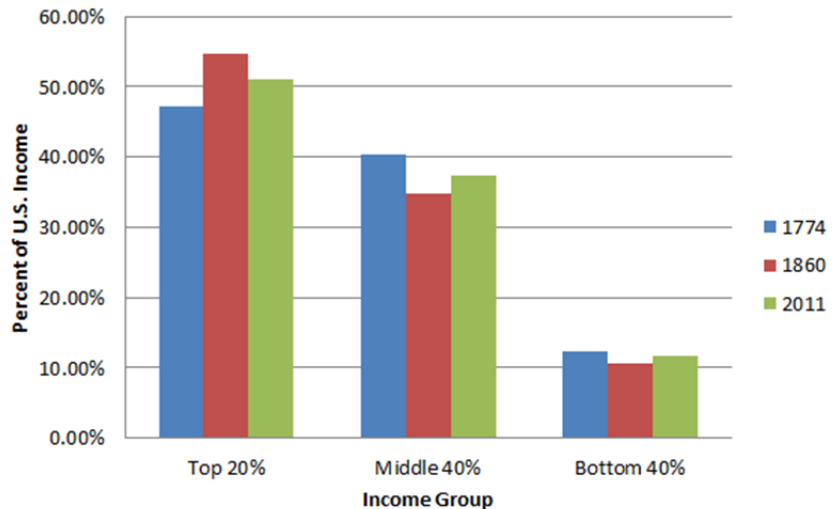
during this time period. Technology and internationalization are exerting pressures on labor throughout the globe.

If we wanted to go back further, to the Civil War and the American Revolution, we would find that the share of national income has remained uncannily stable.

The chart on the right illustrates the share of income that was garnered by three broad income bands. The chart either confirms that the United States has not made a remarkable amount of progress in income inequality since the founding fathers declared independence and Lincoln held the union together or it reinforces the power of capitalism and the wisdom of that founding

U.S. Income Distribution: 1774, 1860 & 2011

(Sources: Lindert and Williamson, 2012; U.S. Census Bureau)



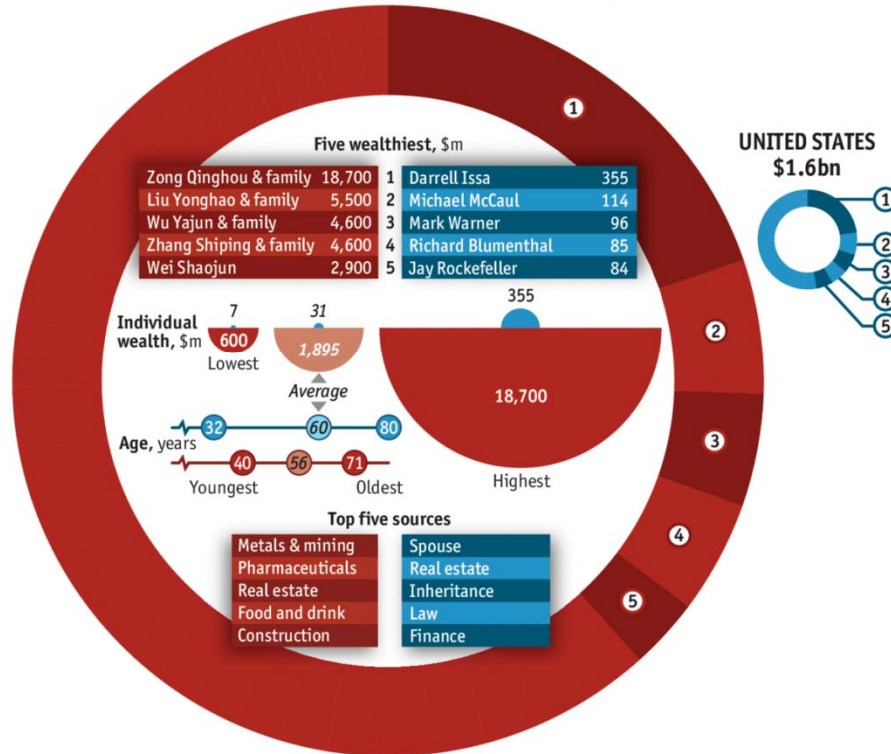
group's confidence in Adam Smith's 'invisible hand' that influenced their consensus. What has changed over the past two centuries is the division of income within the top twenty percent. While at the time of the Revolution, our economy was agrarian in nature and people like George Washington with vast amounts of land, were among the wealthiest, the development of banking, industrialization, efficient and more egalitarian capital markets, and most recently technology appears to have concentrated the income of the top twenty percent into fewer and fewer households.

As mentioned above, our founding fathers were influenced greatly by Smith’s “Wealth of Nations” and

Fifty wealthiest members of Congress

2013 or latest

Total net worth: **CHINA***
\$94.7bn



Sources: Hurun Report; CQ Roll Call; The Economist

*Includes a family with two delegates

Economist.com/graphicdetail

created what has become a reasonably robust capitalist system. The statistics presented concerning income distribution may be a function of innovation and risk taking in America that has accelerated with technology. Unlike China, where wealth and income are a function of political position, wealth in America has been largely a reward for entrepreneurialism. The complex graph on the left compares the wealth of the top 50 wealthiest members of congress to their counterparts in the National People’s Congress. It would appear that Dickens’ warnings to the privileged classes would be best directed at the

Chinese Central Committee and their system of political patronage. We continue to have faith in the system our founding fathers created and believe that over the long run, capital markets will reward all investors willing to bear a measured amount of risk.

We thank you again for your trust and confidence in our firm and if you have any questions, please do not hesitate to contact our office.

Best regards,

Shoreline Financial Advisors, LLC