THE ARIZONA REPUBLIC

WHAT THEY'RE BUYING | Royal Caribbean, General Mills, Qualcomm, 3M

C. Angus Schaal
Tandem Wealth Advisors, Phoenix

Expects most retailing stocks to show lackluster results amid mild consumer spending but likes Royal Caribbean (RCL). "While cruises are a form of discretionary spending, they are among the cheapest inclusive types of vacations available to U.S. consumers," Schaal said.

He also likes Union Pacific (UNP) because railroads are among the first industries to benefit from rising economic growth.

Susan Linkous
The Linkous Group, Fountain Hills

Recommends shares in well-known food companies as a better financial move than clipping coupons.

"Stock investing always involves risk, which can mean loss of principal, but it's also an efficient way to participate in the global economy and quest for wealth," she said. Linkous' food-manufacturing favorites include Nestle (NSRGY), General Mills (GIS) and Heinz (HNZ).

Harry Papp
L. Roy Papp & Associates, Phoenix

Doesn't expect a U.S. recession this year or next but does see stock-market volatility continuing until the European debt crisis eases. He likes Qualcomm (QCOM) for its leadership in smartphones, diversified manufacturer 3M (MMM) for its exposure to emerging markets, and Express Scripts (ESRX), a pharmacy-benefits manager he expects to generate growth from generic drugs.

— Compiled by Russ Wiles

Wiles

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my that expanded just 1.3 percent in the second quarter, with estimates of only slightly better growth for the third quarter and beyond.

How are companies doing it?

Part of the explanation does lie in layoffs and lower labor costs, yet job reductions have slowed from two years ago.

"I don't see companies doing a lot of cost-cutting," said David Daughtrey, an investment adviser at Copperwynd Financial in Scottsdale. "Most of that happened in '08 and '09."

But if layoffs have moderated, employers still are helped because employees are content to stay on the job and work hard without much in the way of raises.

Van Dijk sees a shift in how the profit pie has been allocated between company owners and workers.

Decades ago, he said, "when you had gains in productivity, defined as more output per hour, it was shared between the owners of capital and workers," he said. But lately, with unemployment high and companies threatening to transfer jobs overseas, the benefits "have all gone to (owners) in the form of higher earnings."

Productivity also has increased from automation and labor-saving technology. It has risen at an average annual clip of 2.3 percent over the past 20 years, reported JPMorgan Asset Management, although the rate eased to 0.7 percent in the second quarter of 2011.

But many companies have expanded profits not just by boosting productivity and keeping costs down but also by increasing revenue. Access to global markets has helped, with countries such as China and India growing faster than the U.S.

Foreign markets accounted for 30 percent of total 2010 sales for S&P 500 companies, JPMorgan reported, up from about 24 percent one decade earlier.

"Most of the companies showing good growth have significant exposure outside the U.S.," Daughtrey said.

Although it has slowed a bit, global growth likely will provide a profit tailwind for a while. Urbanization in developing nations is likely to surge over the coming decade, Daughtrey said, and that typically leads to higher incomes and development of broader middle classes.

Van Dijk also believes big companies, and especially multinationals, have been helped by lower income-tax rates. Although the U.S. has one of the highest corporate-tax rates, and that hasn't changed in recent years, he feels many firms have been paying lower effective rates as they search more aggressively for deductions, exemptions and various loopholes.

Brian Riordan, senior research analyst at Phoenix investment firm L. Roy Papp & Associates, said he, too, has noticed moderating tax expenses for some firms. He, too, pointed out that many companies have been using rising cash levels to repurchase stock, thus helping to bump up their per-share earnings.

Phoenix mining giant Freeport-McMoRan Copper & Gold is sitting on $1.4 billion more in cash now than at the start of 2011, and that's despite paying $1.2 billion in dividends, paring debt by $1.2 billion and doubling capital spending since the start of the year.

Rose Papp, research director at L. Roy Papp & Associates, added that fuel and other commodity costs have eased lately, which also has padded corporate bottom lines.

"We're buying stocks here, and it's because of companies' ability to grow earnings," she said.

Daughtrey said he believes profit growth for many big companies also has been helped by their ability to grab market share from smaller rivals. Larger companies, those in the S&P 500, often enjoy economies of scale that make it easier to wrest customers away.

So, can companies keep it up?

The possibility of a new recession or another shock could darken the picture, of course. Daughtrey expects profit margins, currently running at historically above-average levels, to moderate. But Van Dijk doesn't see evidence of this yet.

Expanding profit margins have been a key to earnings growth, and that trend remains in force, he said. Overall margins, net income divided by revenue for S&P 500 companies, averaged just 5.9 percent in recession-battered 2008, rising to 6.3 percent in 2009 and 8.6 percent in 2010. He expects them to come in around 9.3 percent this year and 9.6 percent in 2012.

And if economic growth surprises to the upside, the earnings tailwind could get stronger.

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In the past, many companies paid moving services to pack and unload an out-of-state hire's belongings. Now, most hires must cover their own relocation. TIM BOYLE/GETTY IMAGES

Moving

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to elimination of relocation benefits for lower-level employees.

For job seekers who are unemployed or who are on tight budgets, it's an additional expense to plan for.

Before the economic downturn, it was more common for companies to hire movers to pack up an out-of-state hire's belongings and unload them in his or her new home. Some might even pay for several house-hunting trips or take care of selling the new hire's old house, recalled Bobbi Moss, senior vice president at Govig & Associates.

The firm, based in Scottsdale, helps companies hire executives as well as lower-level workers. While some of those moving perks may still be available for top talent and senior executives at large companies, they have become rare for other workers, said Moss, who has been at Govig for 27 years.

"Relocation is absolutely tied to the degree of difficulty and that criticality of position," Moss said.

If a job candidate is offered help with moving expenses, these days, it is most often a lump-sum check. Job candidates are expected to make most or all of the moving arrangements on their own, said Kathy Colace, managing partner of the Phoenix office of JBN & Associates LLC, an employment-services firm.

"What we are seeing now is about $5,000 or $10,000 given for relocations," Colace said.

Moss said while companies used to offer new hires "a few thousand" for moving costs if they lived within a short flight or driving distance, that perk has all but disappeared. It's also less common for companies to hire a moving company directly, said Melissa Sullivan, spokeswoman for Unigroup Inc. the parent company for United Van Lines LLC and Mayflower Transit LLC.

United Van Lines has seen its total number of U.S. household shipments decline sharply during the U.S. economic slump. In Arizona, the number of household moves the company has made has dropped by more that 50 percent from 18,027 in 2005 to 8,845 in 2010, according to United's figures.

But companies that choose to cut back on moving expenses must walk a fine line, experts say. The job market is starting to pick up, and some firms, such as Govig, have begun to see counteroffers and bonuses offered to degreed professionals and candidates with special skills.

"There is such a perception out there with unemployment numbers being as high as they are, that candidates are just out there by the plentiful," Moss said. But among professionals, the unemployment rates are much lower, she added.

"Again it's the perception that 'I don't have to pay as much, I don't have to pay relocation, pay as much salary, I can take longer to make decisions, I don't have to sell a candidates as much,' " Moss said. "We are constantly educating the employers that this is just not the case. We are seeing some very different kinds of trends."

Even if a new hire doesn't get relocation expenses, they may be able to negotiate other perks.

In August, Globe resident Tim Brewer moved from Hereford, Texas, to Arizona take a job as an IT manager. His new company agreed to let him have time off so that he could visit his wife, Tara. Tara Brewer, a high-school band teacher, can't move to Arizona until December.

Tim Brewer, 30, says that he's still negotiating moving expenses. But the trips back to Texas are crucial for him.

"My bosses here have been very, very helpful to make sure that I have (schedule) changes to allow me to see my wife," he said.

Meanwhile, Penza plans to spend "$2,500, tops" to move herself and her 1-year-old twins, a boy and a girl, from Beaverton to Maricopa. She plans to be as thrifty as possible and expects to sell many of her belongings to cut moving costs.

ARIZONA MOVES DECLINE DURING THE DOWNTURN

Before the economic downturn, people were moving to Arizona in large numbers, according to figures from United Van Lines. Since then, the total number of household moves that the company makes to and from Arizona has declined.

Year	Inbound	Outbound	Total
2005	10,840	7,187	18,027
2006	9,742	7,838	17,580
2007	8,740	6,911	15,651
2008	6,897	5,992	12,889
2009	4,911	4,143	9,054
2010	4,651	4,194	8,845

Source: Unigroup Inc.

"Relocation is absolutely tied to … that criticality of position."

BOBBI MOSS
Senior vice president at Govig & Associates

Gilbert aims to land new VA clinic

By Parker Leavitt
The Arizona Republic

Gilbert may soon land another victory for its growing health-care industry if the federal government chooses one of the town's four proposed sites for a new Veterans Affairs clinic.

The U.S. Department of Veterans Affairs operates 19 community-based outpatient clinics in Arizona, including locations in Buckeye, Anthem and Casa Grande. The clinics supplement the department's three major hospitals in Phoenix, Tucson and Prescott.

Southeast Valley veterans are currently served by a clinic in the former Williams Air Force Base hospital , but the federal government has been actively seeking a site for a new facility.

The list of possible sites has been narrowed to six locations in the southeast Valley, including four sites in Gilbert, Mayor John Lewis said. One of the proposed Gilbert sites is on land originally set aside for Main Street Commons.

Veterans

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which provides health-care services to more than 80,000 veterans in Maricopa County.

Phoenix VA representatives said that an internal review that launched last year found that the local system didn't have appropriate checks and balances to review the community fee program.

"We didn't have strong internal controls, and we weren't following policies and procedures," said Jean Schaefer, public-affairs officer for the VA's Southwest Healthcare Network, which oversees metro Phoenix and six other VA systems in the Southwest. "We've implemented new standards, an action plan."

Schaefer said that the Phoenix VA system already has made changes to stick to budget in the future. Clinical representatives must review all patient referrals to community hospitals and outpatient facilities to ensure they are appropriate.

"You need to have the monitors in place to make sure you are not overspending your budget," Schaefer said.

Although the Phoenix VA has made changes to its community fee care program, Schaefer said that veterans are still getting the health care that they need. Veterans who need specialty care are still being sent to community hospitals and outpatient facilities that offer such care.

Community fee care has been a growing concern for the VA across the country over the past two years.

The federal agency's inspector general issued a report last year that found that such care had ballooned nationwide from $1.6 billion in fiscal 2005 to $3.8 billion in fiscal 2009. The inspector general's review concluded that the agency did not properly monitor the program for fraud and abuse, estimating that annual fraudulent claims could range from $114 million to $380 million based on health-care industry averages.

Another VA Inspector General's Office audit issued last year found that 28 percent of claims paid to community hospitals were paid improperly during the first six months of 2009. The review estimated that the VA overpaid $120 million on claims to community hospitals in fiscal 2009.

An audit issued in August 2009 said the federal agency needed to take "immediate action to strengthen the controls" over the non-VA outpatient fee care program.

The report found that the program was riddled with payment errors, such as duplicate payments and incorrect payments. At the time, the report estimated that the improper payments would cost the VA more than $1.1 billion over five years.

An Inspector General's Office spokeswoman said she expected that the report on the Phoenix VA system's community fee care program would be completed next month.

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