

ADDING VALUE

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Second Quarter Investment Review and Outlook

SUMMARY:

If anyone is interested in understanding more about Iceland, the following books were helpful.

Insight Guide Iceland.

Mulman, L., Last Places, A Journey in the North, 2000.

Nicholson, A., Seamanship, A Voyage Along the Wild Coasts of the British Isles, 2005.

Cohat, Y., The Vikings, Lords of the Seas, 1995.

Lacy, T., Rings of Seasons, Iceland Its Culture and History, 2000.

Laxness, H., Independent People, An Epic, 1997.

Smiley, J., The Sagas of Icelanders, 2000 (newly translated).

A saga is an old Norse word which originally meant simply a story. For a diversion from our usual investment newsletters, we thought we might entertain you with a modern saga about a voyage to the Land of the Midnight Sun. Over a period of 15 days, we traveled in almost constant daylight from Reykjavík, Iceland through the Arctic Circle, the Faroe Islands of Denmark, and the Shetland and Orkney Islands of Scotland to Bergen, Norway, essentially the route followed (in reverse) by the Vikings. The wanderings of these cranky, restless people was our rough itinerary—trekking the same gaunt cliffs, making zodiac landings on the same wind-scudded skerries, and breathing the same salubrious air. The North Atlantic Ocean is not the Caribbean Sea, but we wanted to view first-hand globalization and global warming in this remote venue.

Blue Lagoon

First, in introduction, Iceland covers an area of approximately 40,000 square miles, making it quite roomy for its 300,000 inhabitants, 60% of which live in Reykjavík, the capital city. Iceland's society is the most literate in the world, the standard of living is high, and they also have one of the longest life expectancies. More books are written, published, and sold in Iceland per capita than anywhere else in the world. Unlike many other countries, the ancient literature, written around 1123 A.D., can and is read by modern Icelanders. Contradicting the country's name, the climate is mild with winter having milder average tempera-

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tures than NYC. What makes Iceland habitable are the warming effects of the Gulf Stream, along with the geothermal energy. Icelanders, like bears, hibernate during winter and require very little sleep during summer. On our 15 day trip, the sun never set for longer than 4 hours, and we had 4 days where the Icelandic day took over, and it was bright all night long.

Iceland's most famous tourist attraction is hidden away among tortured black lava flows. The geothermal spa owes its existence to the power plant which is powered by superheated seawater drawn from deep bore holes in the lava. After the steam passes through the turbines, huge condensers convert it back to water which is then channeled into a huge artificial lagoon. The milky blue waters are rich in blue-green algae, mineral salts and fine silica mud which condition and exfoliate the skin. The lagoon sits in a surreal landscape of black lava and sheets of steam blow across the surface of the water. With the roaring silver steam vents of the power plant in the background, the whole place feels like a set from a sci-fi movie. A piping hot waterfall delivers a powerful hydraulic massage, which is then complimented by a real massage at the attached spa. This was fabulously relaxing after a delayed flight. Almost all of Iceland's energy needs are satisfied by these geothermal sources, a completely clean, non-polluting form of energy. Iceland has no air pollution.

Origins of the Land

The landscape of Iceland is very unique, but not especially attractive with its vast, stark lava fields. Iceland's origins date to a mere 20 million years ago when the North American Continental Plate pulled away from the Afro-European Plate and the basin of the Atlantic Ocean came into being. At the line where the original crack occurred, incessant volcanic activity on the ocean floor created what is called the Mid-Atlantic Ridge- a chain of submarine mountains, 10,000 miles long in a north-south direction from Iceland to the southern tip of Africa. The molten lava, or magma, which underlies this rift system surfaces in a number of

plumes. Iceland is situated on top of one such plume. All of this violent, hot undersea activity is in direct contradiction to the polar ice cap that rested above ground on Iceland. Each successive volcano after volcano tried to force a way through the ice in a furious conflict. When the cover came off at the end of the last Ice Age, some 10,000 years ago, Iceland began to emerge in a shape that exists today: a mass of precipitous, flat top mountains (whose cliffs are filled with birds), interspersed with fertile valleys (filled with sheep) gouged by the raking passage of the ice. But the shaping has never ceased: no less than one-tenth of the surface of Iceland is covered by lava-flows which have spilled from more than 200 active volcanoes. The country is literally pulling apart at a rate of something like 1 inch per year. (This may seem slow by Wall Street standards, but because this process has been going on for millions of years, it has caused the Atlantic Ocean to grow from a tiny inlet of water to a vast body of water, i.e., think compound interest.) On average, the population has become accustomed to an eruption (some extremely violent) approximately every 5 years. Some of the ice cover still remains in a number of extravagantly beautiful glaciers and ice-caps covering another tenth of the country. Vatnajökull, located on the southern coast of Iceland is Europe's largest glacier.



The Settlement of Iceland

The settlement of Iceland proper was carried out by Norsemen in the second half of the ninth century. (There is some anecdotal reference to earlier settlement by Irish monks, but no material evidence of Irish occupation has yet been found.) For more than 300 years, from the 8th to

the 11th centuries, the Vikings voyaged ceaselessly and invaded neighboring lands. Little by little they acquired distinct national identities and became the Swedes, Danes and the Norwegians. The Swedes went east, the Danes sailed west as did the Norwegians, who regularly indulged in piracy and in seizing unoccupied or sparsely peopled lands. The Norwegian Vikings had two spheres of influence: south to Europe and west to Greenland and North America. They established bases in the Shetlands, Orkneys and the Hebrides islands to use as stopping points for their increasingly aggressive raids on England, Ireland and France. One of these Vikings, Ingólfur Arnarson, landed on the coast of Iceland in 871 A.D. +/- 2. It is interesting that any country can be so precise in their chronology, but it seems a priest (Ari *fróði*) kept a short chronicle of Iceland's early history in the Book of the Icelanders (Íslendingabók), which he wrote in 1123 A.D. dating the first habitation to 874 A.D. Since the language of Iceland has remained so pure, Icelanders can actually still read and understand these manuscripts. In addition, modern archaeological science seems to have come to the support of Ari. A technique called tephrochronology can give a date to the layers of tephra (volcanic ash) found in the soil. These results, in turn, have been corroborated by Carbon 14 dating and by ice cores from the Greenland ice cap as the year 871 A.D. +/- 2, so it seems Ari was as meticulous as we are at keeping precise records, even 250 years after the fact. (The SEC would be proud of a deviation of only one year for such a long time frame!) The story doesn't quite end here though because our hotel was situated directly on top of this original settlement. Walking down the sidewalk to the harbor were glass stepping stones where you could look down on the original path taken by the Vikings as they established their settlements. This is remarkable because Iceland claims to be able to remember its own beginnings, enshrined in the memories of its early settlers and the written works of its early historians. There is also no evidence that Iceland was ever inhabited in prehistoric times which makes it unique among the world's nations.

Texture of the Land

Ari *fróði*, the aforementioned historian, was also very helpful in describing the land found by the early immigrants. He wrote: "In those days, Iceland was wooded between mountain and shore." Furthermore, the mean temperature in the first centuries of settlement was a little warmer than it is today, by an average of about 1 degree Celsius, and at that latitude a single degree makes a great deal of difference. Modern research indicates that the tree line in the early days of Settlement reached 500 meters above sea level and an estimated 25% of the land was tree covered. Today it is no more than 300 meters and 1%, respectively. Overall, 60% of the surface of Iceland had vegetation, compared to 21% today. So rather than global warming (the climate has actually gotten colder since the original settlement), we were confronted by conditions akin to the deforestation of the Amazonian rain forest. The early settlers introduced livestock which shattered the country's natural ecology with heavy and uncontrolled grazing and further exacerbated the problem by cutting down all the woods. Soil began to blow away in all directions and rain and wind scoured the undefended hillsides and laid them bare. Today, diligent efforts are being made to turn the ecological clock back, but it is a desperately slow business even after 1,100 years!!!!!!

Texture of the Sea

Iceland is an island in the North Atlantic, an incomparable islanded world which has more miles of coastline than the whole eastern seaboard of the United States. The shallow waters are teeming with sea life. We had the absolutely fantastic experiences of following an 80 foot blue whale, the largest mammal to have ever lived on earth for about 1 ½ hours, of watching a group of killer whales construct a "bubble-net" around a school of herring, and of observing humpback whales frolic and cavort beside the boat. We also visited whaling, cod and herring museums that examined the total destruction of fishing grounds in a little over 30 years. It seems as though these Icelanders had as little concern for the sea and its bounty as they had

for the land. It is an amazing bit of short-sightedness!!!

Despite the precision of these historical documents and records, and the earnestness of the Icelanders to know the context in which their society was born, and to correct any misconceptions which foreigners have about this remote country which had been colonized by the dreaded Vikings, it is hard to get a handle on Iceland and its citizens. The first and subsequent thoughts as we drove through the desolate lava plains, deserted sod villages, and wind-swept beaches was – why would anyone want to live here? But for once in our travels we didn't get confused about where we were. Nothing quite matches the austere beauty of Iceland, not even those islands within a 24 hour voyage from Iceland (the Faroe Islands). It is unusual today to see a country retain so much local character and stoicism and simultaneously be so literate and diverse from its nearest neighbors. There wasn't a Walmart Superstore, instead we saw lichen-covered walls with nesting eider ducts; there wasn't a McDonald's, in-

stead fisherman were using string line to catch multiple cod. We circumnavigated Iceland on an expedition ship holding about 100 passengers and we tried to leave no footsteps behind.

There is a famous Icelandic book Independent People by Halldór Laxness, winner of the Nobel Prize in Literature. This book is a pointedly timeless tale. It reminds us that life on an Icelandic croft has scarcely altered over a millennium. Life outside Reykjavík seems static, but maybe it is just Icelanders' reaction to living on ground that is fiery, unpredictable and subject to constant change.

Sincerely,

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