

# ANDRESEN & ASSOCIATES

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## GOING THE DISTANCE

Care to guess where the stock market has gone this year? Most of us would guess that the stock market has imploded. In reality, the Vanguard S&P 500 Index fund is down -6.26%. Of course any loss or underperformance is not a happy event, but we're not losing our life's savings at the moment.

The all-time high for the S&P 500 Index was 1,565.15 on October 9, 2007. The S&P 500 is now at 1158.67, or -26% below the all-time high. We have yet to fully recover from the Financial Panic of 2008.

How about Europe? After all, the Euro's falling apart, right? Actually, as Mark Hulbert pointed out in his November 15<sup>th</sup> column, at the end of 2010, one Euro was worth \$1.3391. It currently stands at \$1.3239. Yes, Europe faces profound challenges. But it's not collapsing.

Well, what about inflation then? After all, it was only a few years ago that the banks were going to fail, and we were going to be bartering gold coins for food. Gold is a superb indicator of both expectations of financial collapse and expected future inflation. The gold ETF, GDX, is down about 10% so far this year.

Hmmm...no real chance to panic there. But perma-bear columnist Paul B. Farrell is saying that we will have a bear market all the way to 2020. I mean, he's credible, right? Actually, he's basing that comment on a poll of 100,000 investment advisors. And they are so wrong most of the time that someone, Charles Biderman, created a business in 1990, Trim Tabs, which successfully manages money by doing the opposite of the herd.

The reality seems to be that we are continuing with our expected long slow recovery from the Financial Panic of 2008. It's about mile 18 in a 26.2 mile marathon. Most of us are very tired and the finish line is still miles away. As a middle distance runner, I am familiar with this challenge. At this point in a long run, I have learned that it is very important to relax, maintain a steady, moderate pace, and let my feet do the running, not my emotions.

We are in a similar situation in the financial markets. In the midst of a very turbulent era, we are invested in diversified portfolios which history and statistics tell us should perform well in the long run. Now, we face the challenge of letting our portfolios run the distance. As with a long distance run, we will do better if we keep our emotions at bay.

The statistics I am seeing suggest to me that as a nation, as a society, and as an economic system, the American people are painfully grappling with key existential social issues, and preparing the ground for an American renaissance. Some statistics are mediocre, some are negative, and some are surprisingly positive. In short, they seem to indicate a tumultuous few years ahead, but not a disaster.

People are castigating Congress for being deadlocked, but the reality is that the American people are themselves deadlocked. American society is embroiled in a necessary redefinition of what we want to be. Yes, it's tumultuous and fractious. We are angry, and we are a nation divided. Still, we must necessarily chart a course for what we want our society to represent in the future. Inevitably, as in all such cases in American history, the path of change will be rocky. But we'll get through it. Until that happens, the financial markets will themselves remain uncertain.

As with all tough times, it's tempting to be in cash right now. But history repeatedly tells us that as a recovery genuinely takes place, most investors are too traumatized to participate. Historically, most people are so emotionally injured by a financial panic that they don't have the capacity to stay in the stock market while it recovers fitfully. Recoveries happen when nobody is watching. And then most investors get back in after the recovery is done, and wonder why they don't make money.

So I'm not planning to cash out your investments, or mine.

Do I know what will happen during the next decade? Aside from the lessons of history and the statistical indicators, I do not. I have no crystal ball.

However, history and the statistical indicators are telling me now in the strongest terms that we should stay very diversified, stay in the stock markets to some degree, and most of all, persist.

2012 promises to be turbulent politically, but we need to go through the process.

As I write this, mainstream media is busily telling us what we have lost, or may lose. They are fear mongers. My response, in all candor, is that this holiday season is a great time to consider what we actually have.

There's a lot of beauty in the world, and the reality is that the royalty of Europe 100 years ago would trade places with almost any of us in a second.

We are, in fact, rich beyond measure, and blessed beyond telling. History tells us that in the future we are likely to become richer still.

Happy Holidays. Merry Christmas.

Pete