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The Asian Century?

It is a long-standing tradition at Andresen and Associates to celebrate the Asian Lunar New Year with a small red envelope containing our annual gift from the world of money to inspire and amaze you. This year, the year of the Rooster, we are pleased to send you an ancient Chinese coin with a fascinating history. This gift conveys our wish for your prosperity and happiness in 2005!

As the 21st Century emerges, one of the greatest questions is the future role of Asia, especially China, in the new world order. We need to understand the basics of what is happening in order to invest successfully in a time of intense unpredictable change.

The economic and political renaissance of China, along with the rise of the rest of the Asian continent, is potentially the greatest geopolitical event of the 21st century. In the past twenty-five years, China's economy has grown by 8.2% per year, versus a US growth rate of about 2.6%. Of course China was starting from almost nothing, but this is still astounding growth. If it continues, China will eclipse the US as the world's largest economy within the decade. This has gigantic implications for all of us.

In the longer term, we face a potential "win-win" situation rather than a zero-sum game. In other words, if China prospers, the US may also prosper as a result. At the moment, China is demolishing American industry with its cheap imports. If you remember when this last happened to us, Japan inundated us with cheap cars. Eventually the Japanese became consumers as well as producers. If this happens with China, we may face a golden opportunity to market to the largest consumer market in history.

Another example of a "win-win" opportunity was Europe's continued growth during America's rise in the 19th and 20th centuries. In addition, the "warm bath" effect may take place. As people become more prosperous, they tend to have fewer children and become more socially and environmentally aware. A more prosperous Asia is likely to be good for the whole world.

However, that prosperity may be ephemeral. While so much of the evidence now indicates a future dominant Asia, there is also much that may go wrong. While the emerging Asian nations are booming economically, they are also growing their militaries, and several already possess nuclear weapons. Just as Pakistan recently demonstrated its willingness to assist rogue states in the acquisition of atomic bombs, Asia's ability to possess global power without abusing it is unproven.

Andresen & Associates

INVESTMENT SEMINAR

Please join us in celebrating Asian New Year and learn about the rising tide of Asian capitalism and how it affects your portfolio in unexpected ways.

INVESTING IN ASIA

Tuesday, February 15, 2005

5:30 pm

158 W. Gabilan St.
Salinas

Please call or e-mail to reserve a seat.
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In addition, the ancient traditions of totalitarianism and corruption are still alive and well in most Asian nations. To grow to maturity without imploding will be a major challenge for them all. There is immense risk. Yet the bulk of the evidence now suggests that the 21st century will be the Asian century.

Meanwhile, the US faces a swarm of short-term challenges. The Chinese have locked their yuan currency to our dollar like a boxer in the clinch. Unless the dollar is able to fall against the yuan, we will not be able to develop our own cost advantages for exporting to them. However, a falling dollar would probably mean higher interest rates because the Chinese have recently bought a large amount of US debt, which they would unload if the dollar plummeted.

We should also expect a ruthless transformation of our economy and our way of life. Our Asian competitors have less regard for both environmental and pension requirements. Therefore, the Asians can beat us on price simply because they do not have to meet our social costs. Likewise, the Asian competitors have less respect for intellectual property rights and continued employment. But we cannot fight back with global economic sanctions, because a trade war would be extremely inflationary and inefficient. Our only choices are to out-compete through greater productivity, to choose individually to pay a self-imposed tax by buying higher priced domestic products, or to transform.

from **Business Week** January 17, 2005



Economic transformation is likely. What does this mean to you? It means that you will need to save more in IRA's and other personal retirement plans since work-funded plans will probably be less lush than they were in past decades. Got Roth? Better yet, are you making maximum contributions to your 401(K)? In the future, I suspect that we will all need to personally save more than we have in the past, simply to maintain a similar level of wealth. Nobody else will do it for us.

What does this mean to your investments? I believe that individual stocks will gradually become less attractive. Individual corporations have become, and will continue to become, more vulnerable to imploding profit as Asian competition enters their marketplaces. Mutual funds and other pooled investments will gain even more market share as profit margins become less predictable.

Investing in Asia via mutual funds continues to be a good idea. I have increased my clients' allocations in overall international investing during the last three years with great results. However, Asian financial markets have a distressing history of suddenly imploding. Investing in Asia has always been a high-risk adventure. Therefore, I have mostly chosen to invest in less risky diversified international mutual funds with a history of successful Asian investing. The First Eagle Funds are classic examples of this.

We face an inherent challenge when investing in Asia. We cannot afford to stay away because Asia may quickly blossom into the dominant global economy. As investors, we must follow the growth. Yet we must also find a way to control the great risks in the Asian financial markets.

Therefore, when I have chosen an Asia-only mutual fund, I have usually aimed at a multi-country fund with a less aggressive posture, such as the Matthews Asian Growth and Income Fund. As you can see in the enclosed profile, this fund has a history of giving up the boom times in return for less overall risk. In the face of the challenges of investing in Asia, such a moderate approach seems very appropriate to me...for now.

