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Hysteria

Our February statements are in, and they are shocking. I am writing to share information about what is happening, and to inform you of the actions we are taking at Andresen & Associates. Essentially, I am sending you your Quarterly Review a month early.

First, **GRAPH 1** shows the market from January 1st, 1995 through February, 2009, a period of 14 years and 2 months. Many of our clients have been with us since then, and they have owned these mutual funds throughout. The stock market is represented by the yellow line, VFINX, the Vanguard S&P 500 Index.

You can see three things here:

First, the stock market decline in which we are currently enveloped is gigantic. It is certainly the biggest stock market decline of my professional life so far, and hopefully the largest of my career. So if you think it's big, you are right. It is normal and natural to feel fear in this situation.

Second, essentially the S&P 500 has produced a return equivalent to bonds for the past fourteen years. That's not much of an advertisement for indexing or equities.

Third, many of our mutual funds have performed much better than the stock market, sometimes by a large amount. For clients with taxable accounts who have owned these funds for all this time, selling could result in TAXABLE GAINS, not losses.

Now let's look at the stock market since January 1, 2000 (**GRAPH 2**). If you bought \$10,000 of the Vanguard Index 500 fund on January 1st, 2000, then after 9 years and 2 months you have \$5,833, an average annual loss of 5.71%. Very few of our funds, such as Longleaf Partners, have collapsed apace and are also money-losers for that time period. Most have not. Most have done better than the stock market, although a few—Longleaf Partners and Dodge and Cox Balanced on this graph—were outperformed by bonds in the same period.

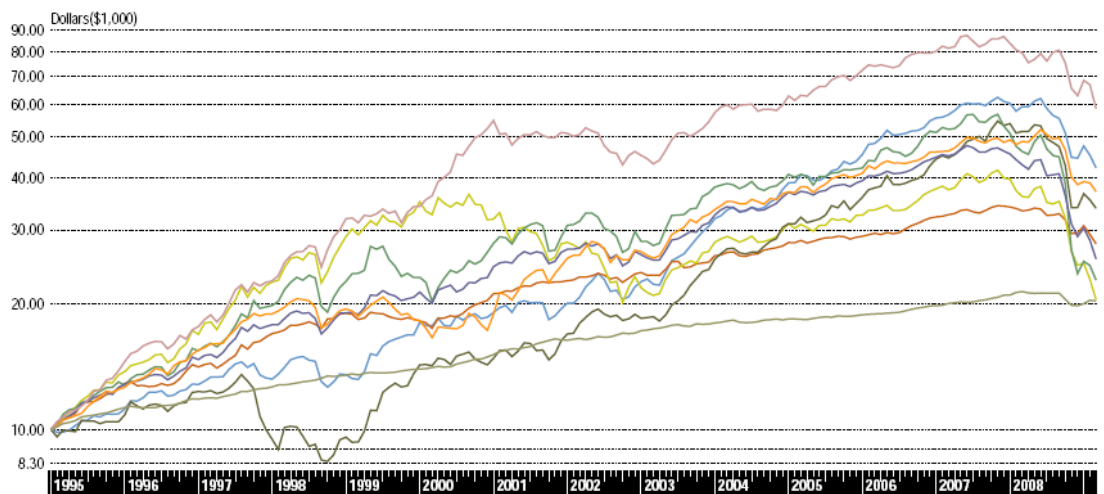
GRAPH 1 -- 14 YEARS 2 MOS

Investment Growth

Item(s) from 1-01-1995 to 2-28-2009

Fund

- First Eagle Overseas A
- Vanguard Wellesley Income
- Vanguard 500 Index Investor
- Matthews Asian Growth & Income
- Longleaf Partners
- Dodge & Cox Balanced
- FPA Crescent
- Vanguard Health Care
- Vanguard Short-Term Investment-Grade Ins

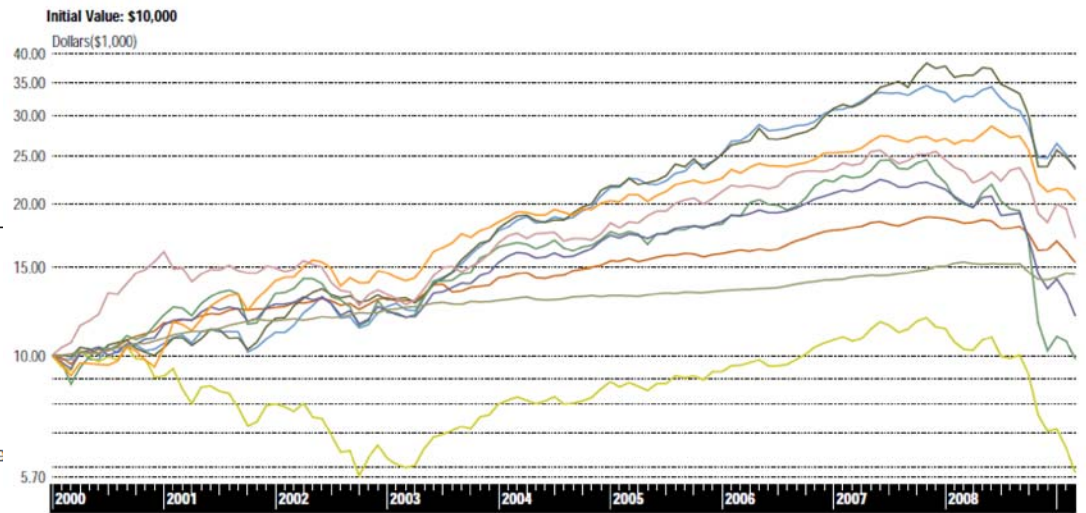


GRAPH 2 -- 9 YEARS 2 MOS

Investment Growth

Item(s) from 1-01-2000 to 2-28-2009

- Fund
- First Eagle Overseas A
 - Vanguard Wellesley Income
 - Vanguard 500 Index Investor
 - Matthews Asian Growth & Income
 - Longleaf Partners
 - Dodge & Cox Balanced
 - FPA Crescent
 - Vanguard Health Care
 - Vanguard Short-Term Investment-Grade



There are BIG LESSONS on GRAPH 2, which we should be aware of now.

The rules have changed. A great deal of financial strategy of the past thirty years has been rendered obsolete, at least for now. The Capital Asset Pricing Model has been utterly destroyed.

This week, Ben Bernanke, Chairman of the Federal Reserve, stated that he disagrees deeply with the Alan Greenspan model wherein markets are rational and regulation is unnecessary. He considers markets irrational bubble machines filled with players who tilt the table in their direction whenever possible. I agree with him. This is great news. We are much less likely to repeat the mistakes of the past few decades with Bernanke's approach. The largest private equity players don't seem to have figured that out yet.

GRAPH 3

Correlation Matrix: Item(s) from 3-01-2006 to 2-28-2009



The pre-2007 rules for diversification have changed dramatically. One dominant event in 2008 was the correlation of too many of our mutual funds. As you can see on GRAPH 3, many of our funds which did not move together in the 2000 crash moved as one in the 2008 crash. We need to be much more explicit in the way we diversify.

The collapse of low risk value funds such as Longleaf Partners and Dodge and Cox Balanced funds revealed our vulnerability to this changing financial landscape. As a result, I have learned to cull underperforming funds and rebalance from relatively unaffected funds much more aggressively than in the past. This aggressive behavior would have been unnecessary pre-2008, and would simply have cost you unnecessary fees. Now we are changing and becoming more proactive.

GRAPH 4 portrays the mess from October 1st, 2007 to 2009 YTD . You can see the very painful deterioration of Longleaf Partners. We were diversified, though, and most of our money was in other funds which did not decline as much as the S&P 500.

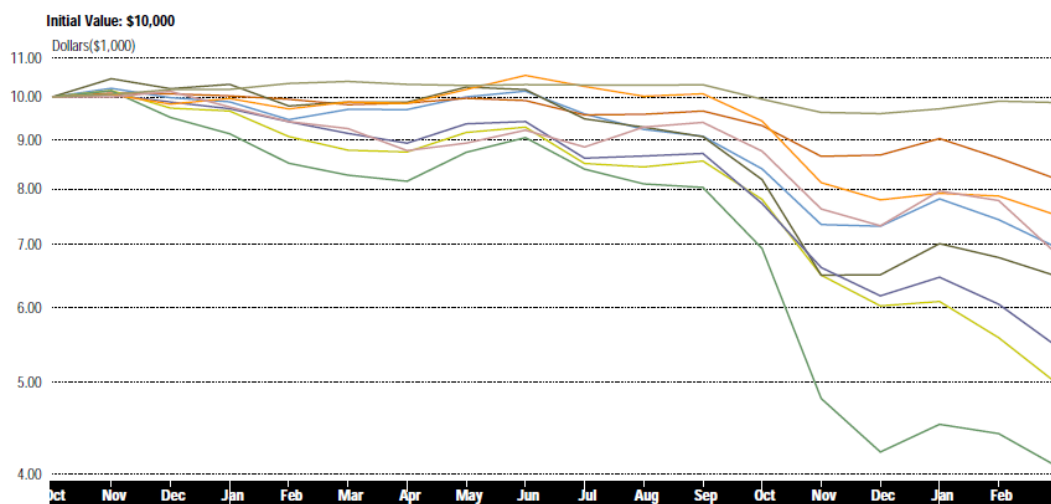
And GRAPH 5 shows 2009. You can see that Longleaf Partners has gotten itself in hand. This explains my partial, not complete, sale of this fund.

GRAPH 4
10-01-2007 TO 2-28-2009

Investment Growth

Item(s) from 10-01-2007 to 2-28-2009

- Fund
- First Eagle Overseas A
 - Vanguard Wellesley Income
 - Vanguard 500 Index Investor
 - Matthews Asian Growth & Income
 - Longleaf Partners
 - Dodge & Cox Balanced
 - FPA Crescent
 - Vanguard Health Care
 - Vanguard Short-Term Investment-Grade Ir

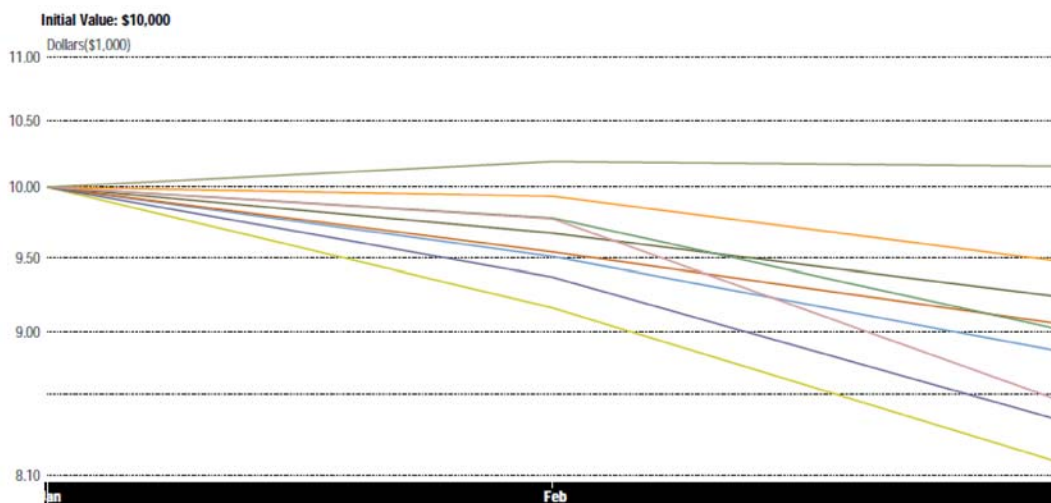


GRAPH 5
2009 THROUGH 2-28-2009

Investment Growth

Item(s) from 1-01-2009 to 2-28-2009

- Fund
- First Eagle Overseas A
 - Vanguard Wellesley Income
 - Vanguard 500 Index Investor
 - Matthews Asian Growth & Income
 - Longleaf Partners
 - Dodge & Cox Balanced
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OK, it's a train wreck. What are we going to do about it? History tells us that most of the time, a sudden down stock market is followed by a very strong up stock market (**GRAPH 6**). Not always, but most of the time. We can't guess if this will happen, but we know from history that it's a strong possibility. We also know the following:

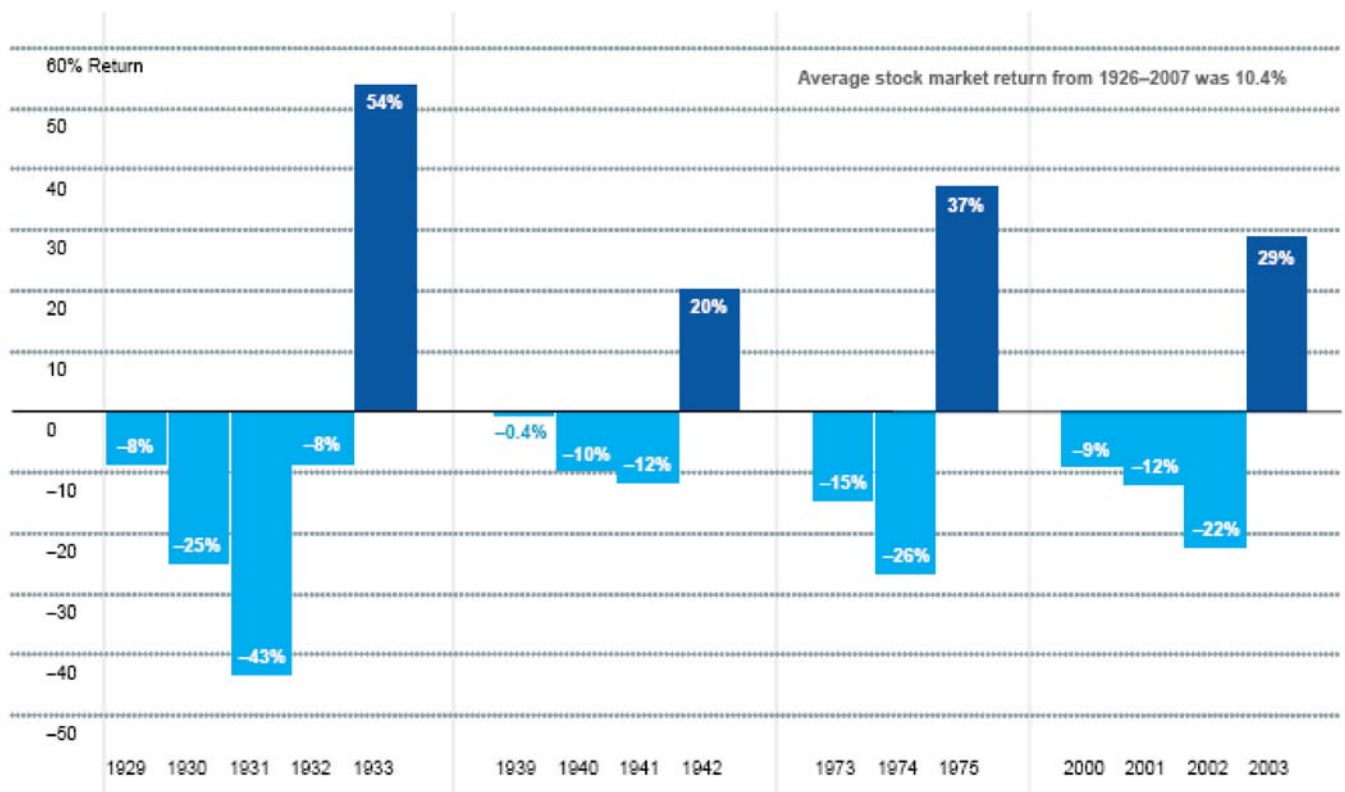
- This decline is **BIG!** Big declines are unusual. The stock market has dropped a lot. Based on history we are probably nearer the bottom than the top of this market cycle. We don't know where the bottom is, but we know it's somewhere close by.
- The Federal Reserve is not behaving at all like it did in the Great Depression. The data elsewhere on this page suggests that stocks are cheap. They would not be cheap if earnings were eroding as rapidly as people assume they are.
- The media pundits who are predicting our economic future are the same ones who said that real estate would go up forever and the stock market was safe. As always, nobody really knows what will happen. Only history offers a clue.

What is most likely to happen at this point is that our down market will eventually be followed by a sharp rise upwards, as in the 1930's. I don't intend to trust it. In other words, I will diversify into bonds as the market rises.

However, long-term bonds are a trap right now because they are unnaturally high. So I will wait until the market recovers somewhat to move money to bonds, and then I will do so gradually. I am not buying bonds in any quantity now.

We know from history that people who are in cash right now will give up some of the recovery to see if the gains are real. That gap between when the recovery starts and when they get in is historically at least 25%...which is more than we have lost this year. Even more terrible is the prospect that they guess wrong...that they invest and then the market goes down again, and then they sell out again. That's how you turn a 50% loss into something much greater. That's why we aren't in cash: historically, we do better by riding this out because we won't be able to guess when to get back in.

GRAPH 6 Periods of Consecutive Negative Stock Returns
1926–2007



Here is what I am doing right now:

- I am rebalancing: Selling some of what has done relatively well and diversifying into places which were unnecessary pre-2008, but which now offer essential diversification, as you can see on the correlation matrix in **GRAPH 3**.
- I am weeding the garden: Selling bits of what has been damaged, such as Longleaf Partners, and diversifying elsewhere in case the fund's management has lost its edge.
- I am moving gradually, without trying to time anything.
- I am selling for tax losses where appropriate.
- I am seeking venues which offer diversification, a chance for genuine gains in a recovery, AND relatively high dividends. If nothing else, we'll get paid dividends while we wait for the storm to pass.
- I have my money precisely where yours is. And I'm not selling.

These are hard times. They will pass. Meanwhile, the best solution seems to be to ride this out, and stay courageous.

Call with questions.

03/10/2009	Value	YTD%
Dow Jones Industrial Avg	6547.05	-25.4 %
Vanguard 500 Index	62.65	-24.6 %
Vanguard Total Bond Index	9.99	- 1.12 %

More Benchmarks 02/13/2009

S&P 500 Price/Earnings Ratio	11.7
Dividend Yields	3.4
Valueline Appreciation Potential	140%