



# THE PETE ANDRESEN INVESTMENT NEWS

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### THE PERFECT STORM

*Today, as I write this, we are facing "the perfect storm" of stock market investing. The stock markets have seldom faced such a combination of threats. The technology market, after one of the greatest investment bubbles in history, has now collapsed utterly, ruining thousands. Corporate scandals have shaken our confidence in financial accounting. The specters of unemployment and loss of income haunt us all. The economy's capacity to recover remains widely disputed. And then of course there are the twin prospects of war and terrorism.*

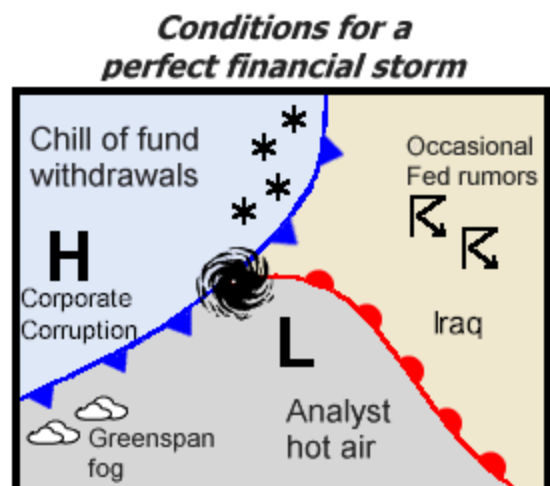
The palpable terror of so many investors is not helped by what we are receiving from the media. For example, the March 17, 2003 issue of "Fortune" magazine features the headline "Is Your Retirement at Risk?" and a distressing cover image of a golfer being struck by lightning. If you turn on the TV, you are likely to be bombarded by pundits enthusiastically discussing the likelihood of the stock markets declining into the indefinite future, or the effect of mass domestic terror on the financial system. Reviewing history, I cannot find a more traumatic time in the collective American psyche save during the great wars: 1861, 1917, 1941, or perhaps the Cuban Missile Crisis. People are afraid. And investors are bathing in fear.

However, neither you nor I will be able to stop or influence any war or catastrophe that might take place. Nobody, except perhaps Alan Greenspan or President Bush, can make the financial markets rise or fall at his or her desire. You and I cannot alter the economy, the interest rate, or the price of oil. You and I are for the most part only capable of reacting to whatever global events take place.

What can we do in a time such as this? Although clients of Andresen and Associates have for the most part avoided the full impact of this economic crisis, we are all injured to some degree. Yet we cannot change the past, and we cannot predict the future. All we have is the present. And in this present moment, what we are experiencing may be an opportunity as well as a challenge. This is an opportunity to face perhaps the most turbulent investment markets in 50 years. Master the coming months, gain a sense of calm as an investor now, and you may have faced the greatest ugliness the stock markets can dish up within a half-century before or after.

For example, many investors have not yet learned the reality of long-term investing. They are still chasing the latest hot investment. Where once they bought stocks because stocks were going up, now they are buying bonds or real estate or gold because those investment classes are going up. The majority of investors continue to buy high and sell low. Now is your chance to break the cycle, and pursue a long-term investment plan through diversified investing.

You also have the opportunity to leave active trading behind. The stock market bubble, now three years departed, lured many investors into believing they could control the risk of their portfolio through active trading. If you know anyone who has been able to successfully trade individual stocks flawlessly through the last three years, congratulate them. Then get them a job as a psychic, because they are unnaturally gifted. In the brutal reality we face, a diversified assortment of mutual funds is a much more attractive option. Remember, if you can't leave your portfolio and go skiing for two weeks without worrying, something's wrong.



Consider adopting the philosophy of the contrarian. A “contrarian” is an investor who buys what is cheap and hated, and sells what is dear and loved. Often a “contrarian” is a very successful investor, because this philosophy compels one to buy cheaply and sell what is expensively priced.

One vastly successful 19<sup>th</sup> Century contrarian, the Baron de Rothschild, once said, “Buy when there is blood in the streets.” He went on to make a vast fortune buying depressed stocks from panicked English investors just before the battle of Waterloo. At the time, the English army was about to do battle with the dreaded army of Napoleon. It was an extremely stressful time: Rothschild was also quoted as saying “I’ve got to keep breathing, it will be my worst business mistake if I don’t.” That sounds familiar, doesn’t it? Of course, the British won, and Rothschild made a fortune in a day. While the details have changed, perhaps we are facing a very similar situation.

I invite you to consider what investments are despised now, and which are exalted? Of course, some investments are cheap because they are trash: that’s where study and insight play a role.

The contrarian regards the media as an indicator of investors’ confidence. Lots of investor confidence is a bad sign to a contrarian, while investor despair is a good thing. When the media is promoting a certain investment, a contrarian investor would strongly consider selling that investment. Remember books like “New Rules For The New Economy”, Harry Dent’s “The Roaring 2000’s Investor”, and Business Week magazine’s cover “The Internet Age” which was published in October, 1999? All of these were published at the cusp of the stock market bubble, and disaster followed shortly thereafter. A contrarian would have regarded such media hyperventilation as very negative indicators.

Now, the TV, the Internet, radio, and the print media are swollen with disaster and despair. I have not seen a positive financial prediction in weeks. Authors seem to be competing with each other for the gloom award. Of course, a lot of this is real. Things are terrible. We’ve reached a national consensus of fear and depression. A contrarian would recognize that the consensus is most often wrong.

In recent newsletters, I have repeatedly stated that I believe the stock market may easily stage a strong recovery. In September I wrote that in five years people would regard the stock prices we know now as bargains. Of course, in this high-risk environment nobody knows where the stock market will go. The evidence suggests that, from here, very attractive market gains are quite possible. Missing those gains by haring off after the latest hot idea is as big a risk, or bigger, than losing money by holding stocks now.

While it is hard to be proactive in the face of the media tsunami, we have a choice: sit and be pummeled, or take the opportunity to develop our abilities as investors. From my perspective, that’s no choice at all. It’s opportunity time. If challenges make us stronger, we ought to be as powerful as super-heroes when all this is over.

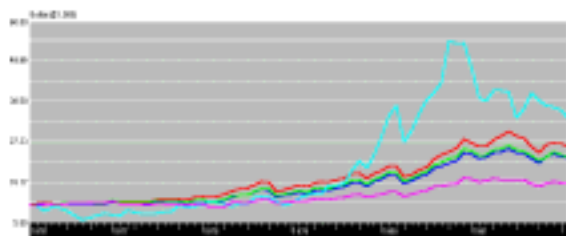
If you joined Andresen & Associates as a client before the recent hard times of the past three years, congratulations on your ability to stay the course! You’ve probably been diversified throughout this entire adventure. As always, changes to your portfolio will happen gradually, biased towards whatever is cheap at the time. At some point, your exceptional discipline should be rewarded once again.

It may be a perfect storm, but no storm lasts forever.

GRAPH 1

Asset Class	Total Return %	Accumulated Return %	Return in Total Portfolio
Small Company	105.54	17.11	16.88%
Large Growth	100.54	14.11	13.86%
World Stock	100.16	13.08	12.74%
Specialty Precious Metals	238.00	22.84	22.68%
Standard 50-Year US	50.57	10.4	10.30%

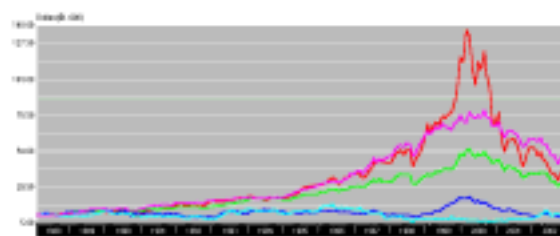
(GRAPH 1)  
A precious metals bubble...



GRAPH 3

Asset Class	Total Return %	Accumulated Return %	Return in Total Portfolio
US/Global Composite	202.30	9.17	38.55%
Japan Stock	144.50	4.05	16.57%
World Stock	208.94	7.01	28.09%
Specialty Precious Metals	26.75	1.75	6.75%
Standard 50-Year US	276.08	10.87	47.88%

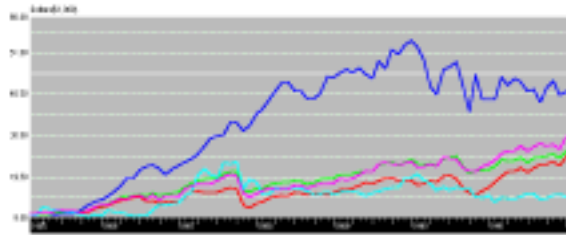
(GRAPH 3)  
...is replaced by a tech stock bubble



GRAPH 2

Asset Class	Total Return %	Accumulated Return %	Return in Total Portfolio
Small Company	159.51	14.00	20.36%
Japan Stock	208.81	21.00	29.87%
World Stock	141.30	14.74	20.73%
Specialty Precious Metals	47.00	3.67	5.10%
Standard 50-Year US	160.00	11.40	16.00%

(GRAPH 2)  
...is replaced by a Japanese Stock Market bubble...



GRAPH 4

Asset Class	Total Return %	Accumulated Return %	Return in Total Portfolio
US/Global Composite	140.80	7.00	9.30%
Japan Stock	108.00	20.00	14.00%
Long Government	174.00	11.00	13.70%
Specialty Precious Metals	70.00	21.00	17.00%
Standard 50-Year US	20.70	-13.00	6.00%

(GRAPH 4)  
...is replaced by the precious metals and bond bubbles currently underway.

