



ANDRESEN AND ASSOCIATES

FEE ONLY INVESTMENT ADVISOR

P.O. Box 1434 Salinas, CA 93902
(831) 758-1575 or 1-800-345-9644
www.andresenassoc.com

May 28, 2008

Watching the Clock

This month the markets are continuing to bounce around as we grapple with a plethora of conflicting economic data.

The big news so far is that the catastrophic economic collapse predicted by so many hasn't happened yet. Perhaps it will happen later. At the moment, though, the data indicates that we seem to have reached some sort of low point.

This has some investors ebullient, confident, and believing that we have left the threat of economic downturn behind us.

But we're not done yet. At least that's what I'm feeling. My take is that the arrival of US government stimulus checks should keep us afloat over the next quarter. Afterwards, though, we face an economic landscape which may include a dismal housing market and a sputtering American consumer.

We could easily "double dip" this economic downturn if the now-receding mortgage meltdown continues to compress financial stocks and continues to depress consumers.

When you look at our economy from a skeptical vantage point, it pays to be a bit cautious. Note that I AM NOT predicting some sort of "End of Days" financial meltdown. Rather I expect a sputtering global economic engine until we can process the debt mess which we ourselves have made. That may happen sooner than expected. But we don't really know.

Oil is interesting. In my wildest dreams I never thought we'd hit \$130 a barrel. But we have, and four convergent global economic events are taking place.

1. The global economy is absorbing the price increase, at least temporarily. Given the gigantic upturn in prices, you would think that inflation would soar and earnings would collapse. Fueled by a declining dollar, inflation has reared its ugly head in the developing world. But it hasn't really taken a bite out of us, at least not yet.
2. Supply is increasing. The recent giant offshore oil discovery by Petrobras in Brazil hints that possibly a gradual increase in supply may be about to take place. The point is that all over the world, a gold rush is taking place as people scramble for petroleum and petroleum substitutes.
3. Meanwhile, the oil producers are richer than God, and acting like it. Russia is a resurgent bully in Georgia. The Middle Eastern nations are creating government-owned sovereign funds and buying up US and other global assets. Iran has leased every supertanker it can scrape up and is hoarding at least a week's production offshore, in a giant parking lot of ships, allegedly waiting for the price to rise. In short, when we buy imported oil we are enriching people who we probably don't want to enrich. When we drive our cars we are enriching our competition.
4. With the US in the lead, energy conservation is taking giant leaps forward. Forget global warming: the Saudis, the Venezuelans, and the Russians are going to accomplish politically what a million lobbyists for the environmental movement could never make happen. If the price of oil stays high in five years we will see a vastly different technological landscape,

and greenhouse emissions will decline at a level which will make the Sierra Club smile. Business Week magazine reports in its May 26th issue that GM is putting everything it owns into producing the Chevrolet Volt, a plug-in hybrid which will provide 100 miles per gallon. So long, V-8 Suburban. If the price of oil stays high, expect demand to plummet within the time it takes for technological change: 5 or 10 years. Already US drivers are cutting back consumption at unprecedented rates. In 50 years, we may look back on this oil price boom as a cultural tipping point when we changed our attitudes and our lives. It may be good for us.

I have to say what I have said before: when you look at it from a distance, oil looks like a bubble. I may be wrong. But when people start talking about permanently high prices, I remember technology stocks in 2000 and real estate in 2006.

In the midst of all this, I am continuing to invest, but I'm investing with an eye for two or three years out, not two to six months. To get real gains we may have to endure some challenging downtimes. So why invest now? Because we don't really know what will happen in the next few months. I'd rather endure some bumps than miss out on potential gains.

That should tell you that while I see the potential for volatility ahead, I am not seeing a major bear market. Instead I'm seeing some bargains, mixed in with garbage and overvalued stocks. In the next Quarterly Review, I will explore this theme further and discuss the inside workings of some of the mutual funds I'm targeting.

Summer Reading List

My daughter Susanne is graduating from high school in 20 days. Not that I'm counting or anything. In the process of attempting to buy the perfect gift, I have decided to give her the book *"The Top 10 Distinctions Between Millionaires and the Middle Class"* by Keith Cameron Smith. This is a small book, overpriced at \$10. But it's full of wisdom and a perfect easy read for a young person wondering what to do next. Mr. Smith is a professional motivational speaker, so of course the book is a bit rah-rah. What he writes is nevertheless helpful. I disagree with his idea that creating a multi-level marketing business is a good way to get rich: I've seen many clients buy into that myth and get burned. He also makes the comment, "In my opinion, real estate is the best and safest asset to invest in." Whoops. But the soul of the book is good. And it lacks the snide judgmental arrogance of *"Rich Dad, Poor Dad"*. So I'm giving this to my daughter with a hammock, with a card which reads, "1. Hang Hammock. 2. Read book. 3. Live". This is a good book for the person in your life, young or old, who is seeking new ideas.

While we're dealing with the aftermath of the real estate/mortgage bubble, you may want to give *"Devil Take The Hindmost"* by Edward Chancellor another look. I have recommended this book in past years. This was written before the tech bubble and the real estate bubble, but its well-written history of speculation is fascinating and revealing. In my opinion this is a must-read for anyone who wants to understand the tides of investment markets.

Since this is an election year, another good book I've been meditating over is *"The Forgotten Man: A New History of the Great Depression"* by Amity Shlaes. Consumer confidence ratings are at their lowest levels in 16 years. We are currently a nation enfolded in its own self-made financial mess, but more importantly, embracing its own self-created despair. But if you want to see real misery, check out the Great Depression. One important lesson of the book is that both political parties made things much worse by uninformed policies and inflammatory class-war politics. Another important lesson is that in reality, the people of the US saved themselves despite the government, not because of it.

Finally, since we are a people awash in fad concepts and popular notions, I recommend two good books by Malcolm Gladwell, *"The Tipping Point"* and *"Blink"*. Both of these books deal with popular thought, including political and market concepts. Both are very instructive in dealing with the inconsistencies and underlying motivations of why we behave as we do.

To summarize, the markets will probably not do anything permanent this summer. We are still waiting on a political settlement. We won't know if we've hit the bottom in housing for months. But because of the election and our national sense of malaise, the talking heads of the various media outlets will probably shriek through the summer months like a large gaggle of drunken parrots. To paraphrase "Macbeth", I am expecting a summer to be "a tale told by an idiot, full of sound and fury, signifying nothing." We might as well spend a little of our government financial stimulus check: buy a book, put up the hammock, and learn something. ☺

Administrative notes:

- No, you aren't hallucinating...Excelsior Value and Restructuring Fund really has changed its name to Columbia Value and Restructuring Fund. I have met with a representative of the fund. As far as I can tell, only the name has changed.
- Pete will be out of the office the week of June 16-20, 2008. Please plan accordingly if you foresee cash needs that may require trades.