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LONG TIME PASSING

As you must know by now, I am fascinated with history. This weekend gave me a lot to be fascinated with: The anniversary of the World War II battle of Midway, the passing of Ronald Reagan, our controversial 40th US president, and the 60th anniversary of D-Day.

“A page of history is worth a volume of logic.”

-Oliver Wendell Holmes Jr.

These events caused me to ponder one of the great contradictions of history: The big issues always repeat, while the details are almost always different.

For example, we are now engaged in a war on terror with very similar causes to World War II. Both wars began due to racial and religious hatred and the world’s unwillingness to confront evil early. Another large factor was the unilateral disarmament by the United States, which encouraged our enemies in the 1930’s and the 1990’s. The basic causes of both wars are surprisingly similar. However, the detailed means by which we are now engaged in this war are very different than the methods we used in World War II.

Likewise, when we look back on history, we often believe that we see a pre-ordained result. The reality of day-to-day life is often far more complicated, riddled with chance, doubt, and misinformation.

Midway was won by perhaps 120 utterly courageous US Navy pilots, and by Japanese Admiral Nagumo’s decision to rearm his aircraft. Had the American torpedo bombers not pressed home, and had Nagumo not stalled his attack, we would have lost. D-Day was won by the individual courage of our infantry and air crew, but also by the German generals’ bizarre insistence on holding their heavy-hitting armor away from the beaches.

Likewise, both of these American victories were preceded by other US disasters. Our victory at Midway followed the abandonment at the Philippines, and the Bataan Death March. D-Day occurred after our defeat at Kasserine Pass, our fiasco at Dieppe, and our stalemate at Anzio.

Nowadays these long-ago World War II victories seem certain. They were in fact gigantic uncertain costly gambles. If, before these victories, we had based all our national morale on preceding engagements such as Bataan or Kasserine, then national courage would have faltered and the Axis would have won.

The world would probably not be such a nice place today. So why, as a nation, do we seem so sure and positive about World War II, in which we lost 450,000 dead and millions wounded, and so unsure about our current conflict, in which we have lost less than 1,000? Some would respond that we were not attacked by Iraq. This is true. We were also never attacked by Nazi Germany.

Repeated psychological tests have studied the human mind’s ability to cope with pain and loss. One study involved dipping the hands of volunteers into ice water for one minute. These participants were also subjected to dipping their hands in cold water for two minutes. During the two minute ordeal, the water was as cold as ice water for the first minute, and then slightly warmer water was invisibly pumped into the containers without the participants’ knowledge.



Afterwards, the participants recalled that the cold during the one minute experiment was worse than the two minute experiment. In reality they had been exposed to more absolute cold in the two minute exercise.

This and other tests reveal the following:

-We are more likely to have more positive thoughts about an experience if it ends well, despite great pain.

-Time DOES heal wounds. The more time passes, the more our perception of pain diminishes.

-Risk perception declines over time. The more time that passes since our last roller-coaster ride, the likelier we are to try it again. Likewise, the closer we are to an experience which ends badly, the more risk we are likely to perceive.

What does all this have to do with our investments? At the moment, we are caught in a national spasm of doubt over our war on terror and our economy. This will probably continue through the Presidential elections in November. I have discussed this in detail in recent newsletters.

In the short run, it seems prudent to be cautious and balanced, especially since we experienced the devastation of terrorism as recently as 9/11. However, it is always a trap to believe that things will always remain as they are now. The world always changes. The more the details change, however, the more the major themes remain constant.

In the longer term, it appears probable that we will see a satisfactory conclusion to the war we are now experiencing. The global economy will grow. The sun will come out tomorrow. In the longer term, we have every reason to remain confident in the future.

Hence, it is all the more important to remain committed to a long-term balanced plan. **The reality of history is that national persistence counts more than day-to-day events.** Persistence we have aplenty. If Kerry is elected, the long term result must still be the same: we must still prevail. In fact, John Kerry is already discussing increasing the size of the US military. Now there's a new wrinkle for you: the Republican president being assailed by the Democratic candidate for having too small a military force.

If you still doubt the healing effects of time, watch the celebrations of Ronald Reagan's life. It is difficult to remember that he was so profoundly hated, difficult to remember that during his presidency the nuclear apocalypse was widely predicted as imminent, and that his attempted assassination was celebrated by many.

Yes, time heals all wounds. So does a balanced, diversified, lower-risk investment portfolio. ★

Administrative note: Pete's pager is no longer used. Please call his cell phone number when you need to reach him immediately for personal or business matters. (831) 809-6999



The history of investing tells us we don't have to take much risk to succeed. For example, T. Rowe Price Balanced Fund was founded December 31st, 1939. It has been in existence since World War II. It has a beta, or stock market-correlated risk, of .55, and is made up of 60% stocks and 40% bonds. Its average annual return since 1939 is 10.05%. Lower-risk mutual funds have performed comparably to the S&P 500 during the past 15 years. There is a long term theme here: *you don't have to take giant risk to get market-equivalent returns.*