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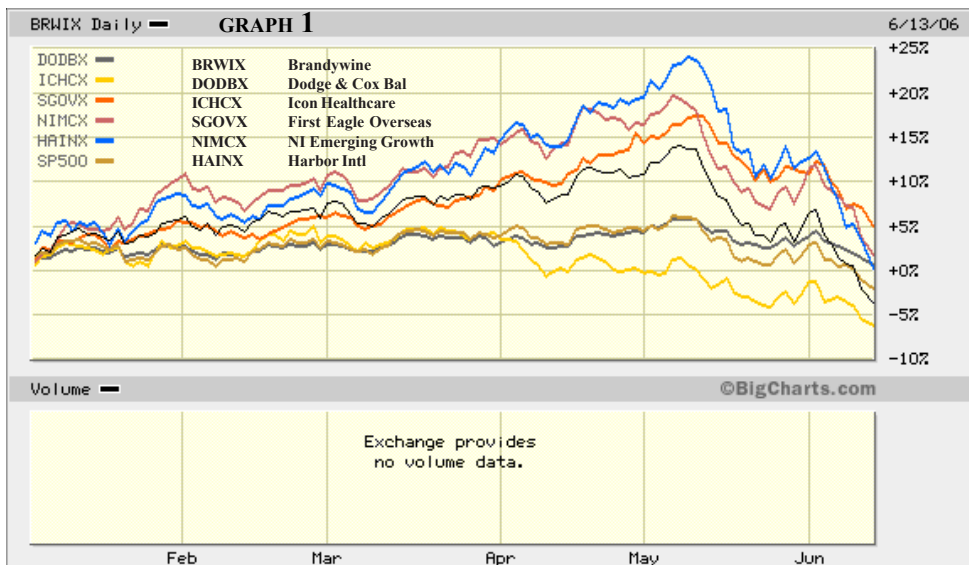
Fear and Loathing on Wall Street

A few nights ago I was watching the stock markets on the Internet and on CNBC. The NASDAQ had fallen over 12% from its high in May, the S&P 500 was down more than 8%. Our Swiss Helvetia Fund, which had gone up 25% year-to-date, had subsequently given up 15% of that gain. The list of losses unrolled across my laptop in what looked like a never-ending stream. I realized that we are in the midst of a very ugly correction involving all the financial markets of the world. People are really scared.

So, let's sit down, draw a deep breath, and consider that none of us really know why this is happening. To make things even more emotionally unsettled, none of us really knows what will happen next. Furthermore, what we think is happening may not be what is actually happening. How's that for confusing?

As a financial downturn, the current correction is not much...yet. Here's what it looks like from a year-to-date perspective (**GRAPH 1**). In most cases, we have given up the year's gains, and not much else.

Individual investments may be hurt, but most portfolios do not appear to be profoundly injured. So far, the damage is actually less than the media's hand-wringing angst would suggest. You may wish to take a look at your larger portfolio before you study your individual mutual funds.



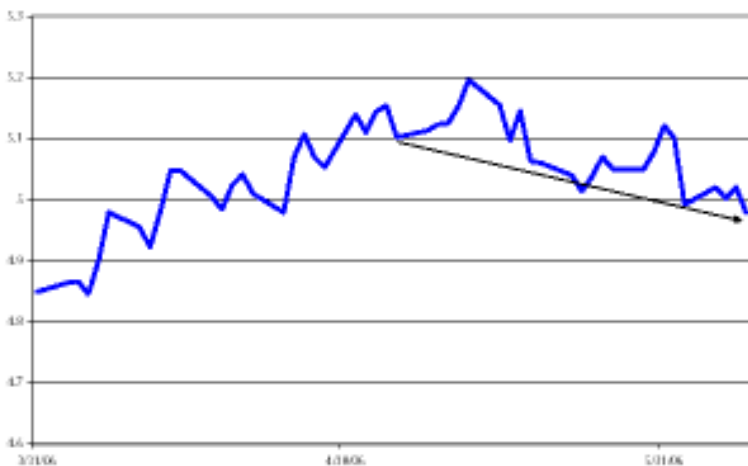
There is a lot of data suggesting that the financial markets may go down from here. There is also plenty of information to indicate that this downturn should be limited.

The price of petroleum is very high. This is financially negative in the short run but positive in the long run since the US is superbly adaptable and profoundly efficient relative to the rest of the world.

Look at it this way: if oil stays as high as it is now, how many of us will own hybrids?

GRAPH 2

10 Year Government Bond Yield



Interest rates are rising but they are still small in an absolute sense. Even more importantly, the 10-year Government Bond Yield profoundly suggests that investors see inflation as a declining threat (GRAPH 2).

The Federal Reserve is raising short-term interest rates to combat inflation...and it appears to be working. Investors perceive a lower risk of long-term inflation, and longer term interest rates ARE GOING DOWN! That means these higher short-term interest rates may be a good thing. Yet, stock markets do not tend to do well in climates of rising interest rates because rising interest rates tend to cause economic slowdowns. A slight economic slowdown at this point would be neither a surprise nor a catastrophe.

On the other hand, the relative valuation of stocks is currently very low relative to past bubbles. The S&P has a P/E of about 16, as compared to about 28 in 1999. Clearly, this is not the stock market we experienced in the year 2000. There is little data to suggest that stock markets are about to enter a prolonged downward spiral such as the downturn we experienced from 2000 to 2003. This all implies to me that the financial markets may decline a bit in the immediate future, but that the overall long term trend is probably up.

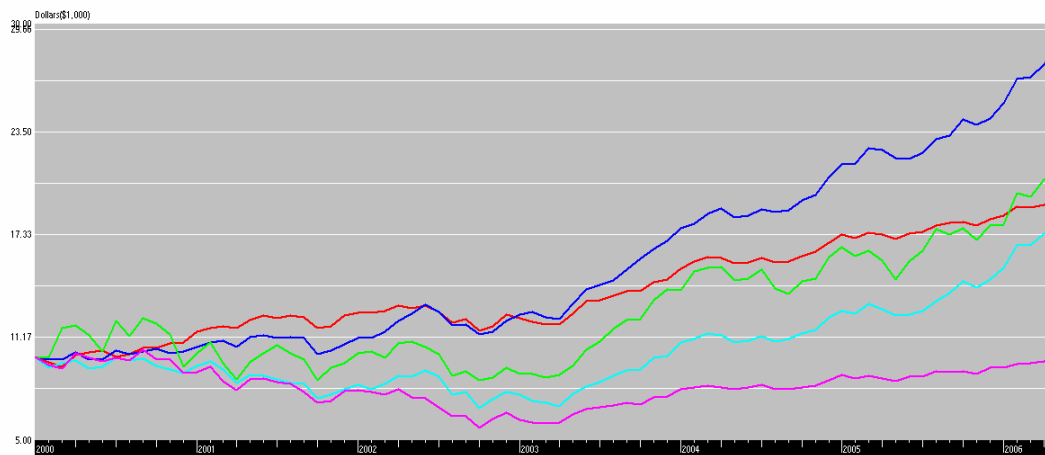
Our philosophy at Andresen & Associates is to own mutual funds instead of individual stocks to increase diversification. We trade mutual funds grudgingly and with as much information as possible. We try to diversify our portfolios in the first place, before a downturn strikes. We “weed the garden” by selling your losing investments and keeping your winners. And we try, as much as possible, to stay focused on the longer term, and stay the course.

We have been analyzing portfolios to make sure we understand risk exposures. I am reluctant to sell wholesale in taxable accounts in the face of what may be a relatively moderate decline. If I sell your long-term winners now, I will incur taxes which will cost you as much or more as market losses. We are “weeding the garden” by selling a few mutual funds which

already appeared to be faltering prior to this decline. We are replacing these lagging funds with fresh mutual funds which we feel have better prospects in the future.

GRAPH 3 GROWTH OF \$10,000 1-1-2000 TO 4-30-2006

| Fund/Index | Total Return % | Annualized Return % | Amount at End of Period \$ |
|--------------------------|----------------|---------------------|----------------------------|
| Dodge & Cox Balanced | 94.61 | 11.09 | 19,461 |
| First Eagle Overseas A | 186.38 | 18.20 | 26,639 |
| N/1 Numero Inv. Emerg Gr | 108.69 | 12.40 | 20,969 |
| Harbor International Inv | 83.35 | 10.05 | 18,335 |
| Standard & Poor's 500 | -1.37 | -0.22 | 9,863 |



Emphatically, we are not “cashing out.” In fact, where clients have ample cash, we are *buying* mutual funds. Even though the present is full of volatility, we are still committed to your long-term goals.

It is worth closing with a remembrance of how we felt in 2001. I’m sure many of us thought that the stock markets would never recover. GRAPH 3 shows what happened next