

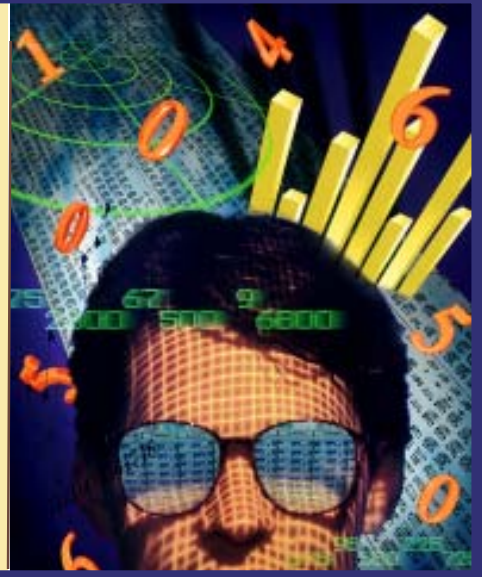
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REALLY SMART MONEY

This week my associate Laurie Classen and I traveled to Las Vegas to attend the Schwab Impact money manager's convention. While we were there we had the opportunity to attend seminars with some of the great minds of modern capitalism. Sometimes we were able to meet and speak with them personally. These people have proven records of delivering superior results for decades. Thus, what they think is worth considering.

Among many, the presenters who had the most impact upon me were Steve Wynn, Jean-Marie Eveillard, Mario Gabelli, and Fareed Zakaria. Steve Wynn is a very successful entrepreneur who has developed many of the casinos and resorts of Las Vegas and who is now deeply invested in developing the world's biggest casino at the Chinese city of Macao. Jean-Marie Eveillard and Mario Gabelli are legendary mutual fund managers. Fareed Zakaria is the editor of *Newsweek International* and a highly respected TV news commentator.

Several topics were covered by at least two speakers. Here's the summary:

- 1. We will know the full effect of the housing bubble/mortgage bubble collapse within the next six months.** Mr. Eveillard gave us odds of 40% of going into a recession, and the others seemed to feel about the same. There is no perception that we are on the brink of any deep collapse. Mario Gabelli sees average annual returns to US stock markets in the 7%-10% range or better for the rest of the decade and beyond.
- 2. The economy is truly global now and the US is no longer the dominant force, except militarily and culturally.** "The whole world is playing the same game" was how Mr. Zakaria put it. The US may have invented modern capitalism, but the rest of the world has more than caught up. For example, London is now the world's financial center, thanks to the war on terror and the Sarbanes-Oxley Act of 2002. Both of these created profound hurdles for US companies in terms of accounting. The world's tallest building, the world's biggest petrochemical plant, most of the world's steel, and the richest people are no longer in the US. Most cars made in North America are now made in Canada. Another factoid: 40% of the S&P 500's earnings are now international and the number is climbing rapidly due to the weak dollar. "Sovereign funds", which are other countries who are buying on behalf of their entire nation, are taking an increasing position in the US. For example the nation of Dubai recently invested four billion dollars in the MGM Grand hotel in Las Vegas. The new acronym these days is "CRIB", which stands for "China Russia India Brazil." These countries have 4 billion consumers, all of whom want to buy US goods. As the impoverished increase their incomes, they are choosing to buy better food...and then cell phones.
- 3. The enormity of global growth can be seen in the world's stock market capitalization. In 2002, the world's stocks added up to 22.9 trillion dollars. Now the world's stocks add up to 49.9 trillion dollars.** Mr. Zakaria stated that the past four years have economically been the best humanity has ever experienced, ever. He calls this "The Rise of the Rest."

4. **The Chinese stock markets are in a bubble of monumental proportions.** Mr. Wynn, who is making a big bet in Macao, thinks the Chinese financial markets will probably continue to go up from here. Mr. Eveillard, Mr. Gabelli, and Mr. Zakaria all believe the Chinese financial markets will collapse and then quickly recover. Nobody thinks we're going back to the 20th century. This is Asia's time. But in the meantime, we don't know what will happen when these markets deflate. For one thing, Chinese sovereign funds will possibly sell off some of their US holdings. So these markets add turbulence to the current environment. Meanwhile, China is growing because of its government... while India is growing despite its government.
5. **More turbulence: Raising taxes in 2010 is probably going to result in a temporary financial decline as people rush to sell.**
6. **Mr. Gabelli and Mr. Eveillard both stated that they are willing to lag when markets become hot to reduce risk to their shareholders.** Mr. Gabelli stated that "the goal is not to beat the S&P in the short run; the goal is to be up!" Both are somewhat cautious right now despite superb earnings from the S&P 500, due to the overheated Asian markets and the unknown effects of our own housing/mortgage bubble deflation. But, as I have mentioned, nobody is seeing the looming threat of any kind of serious long term decline.
7. **What comes next: Health care and the needs of aging boomers. Also, water will be the next petroleum.**
8. **The greatest dangers to the US are of its own making.** The war in Iraq is actually winding down from a standpoint of human suffering. Al Qaeda has been reduced to a video production company. But US citizens see so much of war on TV, and are warned against so many other dangers in the midst of their affluence, that poll after poll indicates that Americans are becoming fearful and xenophobic. Comparatively, Americans are less happy and more anxious than most other people. And we are turning more and more inward. The top third of US students are superbly educated and completely capable of competing with the world. But the bottom third of our educational process is an increasingly smug and angry subculture which is capable of dragging us politically into isolation and stagnation. Mr. Zakaria called for an "educational Marshall Plan" targeting lifelong education and re-education, so our culture is capable of fully embracing the global economy more effectively.

All in all it was a superbly informative few days. I was able to talk to Mr. Eveillard and Mr. Gabelli in person, and came away with the impression (which I have also received in the past) that Jean-Marie Eveillard is a philosopher soul, and Mario Gabelli is an old-fashioned wheeler-dealer.

A few other thoughts came to mind during my time in Las Vegas. Fully half of our very successful money managers were immigrants. I don't know what that means, but it means something. Also, successful money managers seldom have bachelor degrees in business. Most have liberal arts degrees, or degrees in music, philosophy, English, or something else. One manager has a degree in forestry. I suppose this diversity of education and personality contributes to their abilities to think outside the lines. That's something to consider if you know any young person contemplating a college major.

Laurie and I learned a lot at the Las Vegas convention which we will apply to managing your money. What we did not do was gamble. When I was able to talk with prominent leaders of finance, I discovered that they do not gamble either. For them, investing is about risk management... not speculation.

Administrative note: Our office will be closed Monday, November 12 in honor of Veteran's Day, and November 22-23 for the Thanksgiving holiday.

PLEASE JOIN US

Thursday November 15, 2007
6:00 pm
158 W Gabilan St.

Andresen and Associates will host an open investment forum for clients and their guests. We will discuss how the lessons of Las Vegas will affect our investment decisions, and thus your portfolios.

Since this seems to be the Asian Century, we will be serving a light dinner of Chinese food.

Please RSVP if you plan to attend.
758-1575