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THE PETE ANDRESEN INVESTMENT NEWS

INTERNATIONAL HARVEST

GRAPH 1: Here's where we are as of October 31st. As you can see, the NASDAQ Index, which is chock full of the tech names which collapsed in the past three years, is now in the midst of a rocket-like recovery. Call it a mini-bubble. Small stocks of all sorts are close behind. And in third place we have the mutual funds that invest in stocks outside of the United States, the international mutual funds. Remember, this is a graph of indices, not actual mutual funds. The real story of what is going on in the international investment venue is much more complex, and much more of a lesson.

GRAPH 2: As you can see, while international mutual funds in general are up, the international mutual funds which you own are actually up much more. Not shown is the closed-end mutual fund Swiss Helvetia, which trades like a stock. Graphing such a fund is troublesome because the dividend is often ignored by the graphing software. This year, SWZ has gone up 30.03% including a 7.9% dividend. Why are these funds up so much in the last nine months?

GRAPH 3: Let's start with the reality that international stock markets fell more in the past three years than the US stock market. As you can see, pretty much every market outside the US fell more than our own S&P 500 Index. So these markets declined to an undervalued level in the past three years even more than our own stocks. And like our NASDAQ, these markets are now staging an equally irrational rebound. One wonders why the international markets would fall in response to our own domestic malaise and 9/11, but there it is: the US economy is so huge that it affects markets globally.

GRAPH 4: During this same time we witnessed another phenomenon. During the late stock market bubble, which ended in 2000, the dollar was the 10,000 pound gorilla of currencies. As you can see in this graph of the relative value of the Euro, the dollar rose inexorably while other currencies declined. This is a natural consequence of an economic boom. A rising dollar suppressed our own exports while promoting imports from abroad. Then as our economy declined, the dollar fell versus other currencies, and imports declined as exports rose. It's as natural as that "circle of life" in "The Lion King", although I very much doubt that Elton John will write a song about it. What's important to you is that a Euro-denominated investment becomes more valuable in dollar terms as dollars become cheaper. In short, your investments overseas are benefiting from two market moves: recovery in the international stock markets AND currency appreciation. When the dollar falls, you MAKE money if you are already invested overseas. Congratulations!

GRAPH 5: Now that we know about the natural currency cycle and the rising stock markets, an inquiring mind will naturally wish to know how our own international investments fared during the recent downturn. Here's the answer: because we moved to an "International Value" approach early in the bubble, your international mutual funds generally avoided the recent stock market decline. This breathtaking performance provides us with a vital lesson on how to invest. Please examine this graph carefully. You can see that First Eagle Overseas is actually up during the recent stock market crash, as is Matthews Asian Growth and Income, to the tune of 60.82%. This is obviously a better venue than the NASDAQ, which is still down 55.75% from January 1st 2000. Meanwhile, Harbor International has incurred a small loss which is miniscule compared with that sustained by US stock markets.

GRAPH 6: In fact, if you look at this graph, you can see that you need to go back all the way to October 1, 1996 to get an investment in the S&P 500 to outperform our worst international fund, Harbor International. Also, please take a ruler and place it at the peak of the NASDAQ line, at about the January 2000 point. You will see that at that time, international mutual funds were grossly underperforming! At that time, I had clients routinely calling or emailing to ask why I was investing in such obviously obsolete funds!

Yet in the longer term they have spectacularly outperformed alternative investments. The VITAL lesson: sell what is expensive; buy what is cheap and unpopular. And above all else, DIVERSIFICATION PAYS!

Just for the record, to beat our international fund selection with a NASDAQ investment, you must go back 9 years, to about October, 1994.

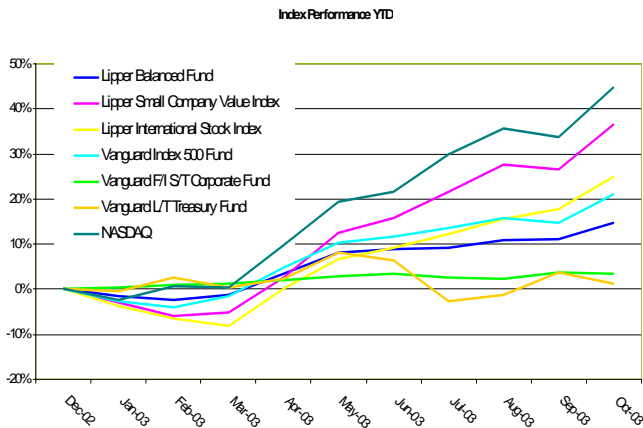
Having written this, I will now receive many phone calls from clients wishing to place more money in international investments. In fact, the three mutual funds I've studied here may have run their course, at least for now. Certainly, First Eagle has had an almost uncanny ability to pick undervalued stocks, and as a result their assets under management have ballooned. This may affect future performance, so we will watch carefully.

Swiss Helvetia, as a closed-end fund, can't take in new assets, so it's safe for the time being. Also it has about 15% of it's assets in Nestle, which has recently embarked on a purchasing campaign to buy bottled water producers globally.

Matthews Asian Growth and Income is bound to see a correction simply because the Asian markets have done so well. Yet, it is also undeniable that this may be the Asian century. It is also true that white-collar jobs are being exported from the US to Asia and the Third World at an unprecedented rate. Yesterday I got a call from my bank, calling to discuss my company's line of credit, in perfect English....from Jakarta, Indonesia. The effects of this Employment Diaspora cannot yet be predicted, yet they will be profound.

We must continue to consider the ignored, the hated, and the downtrodden. The way to invest successfully is to find what is cheap now, wherever it is located. The hunt goes on.

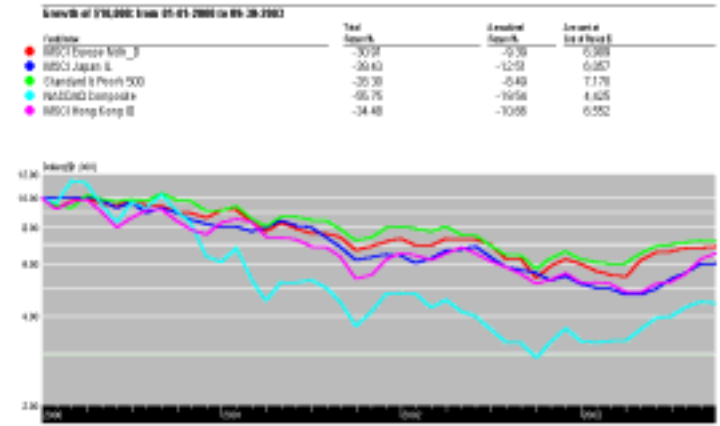
GRAPH 1



GRAPH 2



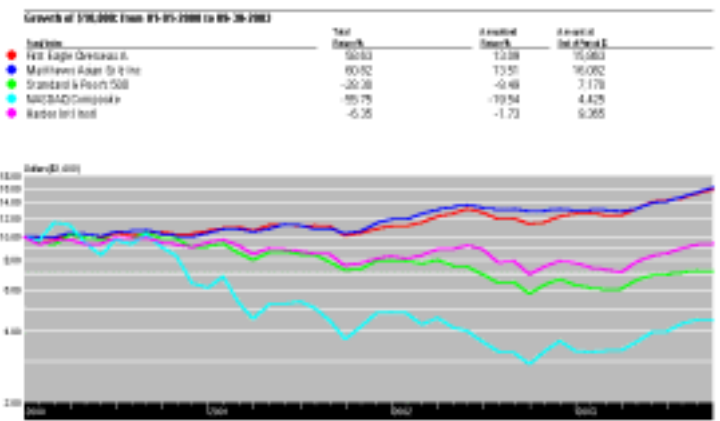
GRAPH 3



GRAPH 4



GRAPH 5



GRAPH 6

