

DECEMBER 1, 2008



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The Grinch Economy: Lights Out in Who-ville

- 1. We are in the middle of a very ugly financial crisis. This is caused by both a collapsing financial network of over-extended markets and rampant societal panic.*
- 2. The media is screeching expectations of depression. Some of this is simply hyperbole.*
- 3. I believe that we don't know what will happen in the short run.*
- 4. I expect with complete conviction that we will recover, probably within 5 years.*
- 5. I am preparing to rotate a few of our worst-performing mutual funds towards those which produce more income, to enhance our participation in a gradual economic recovery.*
- 6. Selling out now is a fear-driven response which usually leads to very destructive market timing.*
- 7. For investors willing to endure 5 years of uncertainty, this is a buying opportunity.*

We are currently enduring a very painful financial panic. All of our portfolios are down sharply from our September 30th quarterly reports. Most of our clients' portfolios have experienced declines less than the financial markets. Our average client's portfolio is down 31%. That's meaningless for the individual, because your own portfolio is likely to be down more or less than that. The market as a whole is down 40% currently. As my father used to say, you can't polish horse manure. It's bad.

I could rattle on about statistics. I could discuss all the subtle nuances. But perhaps we've analyzed too much. Essentially this is about two big themes: ***1. A collapsing bubble of interlocked financial markets. 2. Fear, fear, and more fear. That's it.***

Three years ago seems like a lifetime, doesn't it? But it's important to realize that the same emotional dynamics are in play. At that time, the world was intoxicated with the dream of ever-rising real estate markets, a bullet-proof financial system, easy lending, and an unsinkable global stock market. The same media which is now informing us of imminent financial danger was cheering the new buoyant global economy. Politicians of both parties were busily silencing regulators and economists who saw the problem coming. We were convinced it would always be as it was at that time. Please ponder that. Essentially, everybody was wrong.

What do we think is going on now? The self-same media is informing us that this is an historic, life-changing disaster. The same politicians inform us that only by government intervention...and their planning and wisdom...can our economy survive. We have been infected by their fear-mongering as though it was a pathogen. But wait a minute. Aren't these the same people who could not see 9/11 before it happened and then were catastrophically wrong about the economy?