

ANDRESEN
AND ASSOCIATES
FEE ONLY INVESTMENT ADVISOR

P.O. Box 1434
Salinas, CA 93902
Phone: (831) 758-1575
www.andresenassoc.com
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GOOD TIMES

As the eye of the holiday season approaches, I am reading an incongruous selection: "*Why The West Has Won*" by Victor Davis Hanson. This is a book about why the West has been so effective militarily and culturally. Why didn't Islam conquer the world? Why isn't Africa the dominant cultural wellspring for the globe? I am trying to understand the war in Iraq and what consequences it may portend for the US economy.

One of the great lessons of the book is its discussion of fear. As American citizens, what we fear in the short run for our nation is almost always worse than what happens in the long run. That won't always be true, but, in general, betting on the success of capitalism and the triumph of individual rights has been very profitable and emotionally rewarding.

Sixty-four years ago on this day, the Japanese Navy assaulted Pearl Harbor. My grandmother, who lived in the house where I now work, immediately killed the family dogs to prevent their consumption by the invading horde which was expected to debark at Moss Landing. My father was in medical school at the time. He was not amused. Neither were the dogs.

And of course, she was completely wrong. Short-term fears led to unfortunate long-term consequences, especially for the family pets. Six months later, at the battle of Midway, a scratch team of cryptographers and carrier pilots wiped the Japanese Navy from the eastern Pacific and began the great campaigns which created our inevitable victory. Tremendous sacrifice was involved. Entire squadrons of torpedo planes were annihilated. We won. My father rushed through medical school expecting to participate in Armageddon, but instead, he helped preside over the clean-up.

Likewise, we are paralyzed by current news. Over 2,000 Americans have died in Iraq, which is utterly and irreconcilably horrible for the families of the lost. It also represents the casualties of a normal week or less in World War II, rather than the losses of an entire campaign. Nevertheless, our national emotional malaise and our lack of confidence in the economy are palpable.

I sometimes hear from clients when they're afraid. In response, I always re-examine their individual portfolios. I usually find a consistent theme: their portfolios badly lag the indices when short-term fears cause clients to leave the stock markets rather than simply diversify. The only truly bad times for diversified portfolios have occurred when short-term fears triggered flights to cash. Even when you factor in the gigantic meltdown between 2000 and 2003, the recent history of investing has been profoundly successful. To step aside and hide is seldom effective.

Add to the mix our emphasis on diversification and the point is even stronger: staying invested has paid off. As you can see on the graph, bank accounts, represented by the performance of 3 month CD's, have been left utterly in the dust by the S&P 500. As an added bonus, our value funds have outperformed the S&P 500 as well. I have witnessed this throughout my career, time and time again. It is a central cultural paradigm of the age in which we live: a carefully constructed, risk-aware diversified portfolio of mutual funds has delivered stunningly successful results for decades. Such a portfolio has succeeded in the face of myriad short-term terrors and dozens of temporary setbacks. Success has always demanded time, discipline, and consistency. The fear of the unknown future has been with us every step of the way.

Most of the current data I am studying suggests that we may have a small recession sometime in the next two years, but nothing serious. In fact, the economy appears to be thriving. While we never know what may actually happen, almost all the information we can gather suggests that we will continue to see attractive long-term returns in the global stock markets.

So, let us go into our holidays giving thanks that we live in the time and in the place where we are. Look at that long-term graph. Surely we have much for which to give thanks. Then, let us take courage and stay the course. 🦋

Growth of \$10,000 from 11-01-1990 to 10-31-2005

Fund/Asset	Total Return %	Annualized Return %	Amount at End of Period \$
Dodge & Cox Balanced	595.22	13.38	68,822
Frost Eagle Gbl A	585.74	13.70	68,574
Standard & Poor's 500	440.86	11.81	54,895
Loggoff Partners	950.29	16.87	105,829
3 Month CD	83.10	4.11	18,310

