

## ANDRESEN & ASSOCIATES

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**FEBRUARY 1, 2010**



02/01/2010	Value	YTD %
Dow Jones Industrial Avg	10,067	-2.52%
Vanguard 500 Index	98.97	-3.6%
Vanguard Total Bond Index	10.48	+1.57%

### THE YEAR OF THE TIGER

This is the beginning of the Asian Year of the Tiger. Specifically, it is the year of the Metal Tiger, a combination which according to Chinese tradition signals conflict, challenge, bravery, and growth.

As is our tradition, enclosed is a bit of lei see currency from overseas. In this case, in keeping with what appears to be the emerging Asian Century, the enclosed cash is Chinese Yuan.

The portrait of Chairman Mao, the great slayer of millions of the Chinese middle class during the mid-20<sup>th</sup> Century, the devastator of the Chinese economy for decades, now graces the most fundamental bill of Chinese money during China's current renaissance. I can only wonder if this is a portent. Certainly Mao is himself an exemplar of conflict, challenge, and even bravery. History records that he didn't do much for growth.

Even without evoking Chinese Astrology, 2010 promises to be a year of tumult, a year of blending many financial and social themes. As such, it is sure to be laden with emotion and factionalism.

I am reading the book *Sway* by Ori and Rom Brafman. This is a must-read book for understanding irrational behavior.

For me, the most valuable chapter is the last, titled "Dissenting Justice". It's about the role of dissent in decision making, focusing on the behavior of the US Supreme Court.

In short, where there is cordial dissent, it appears that better decisions are made by everybody. Two words are probably important: "dissent", and "cordial". Verbal combat doesn't count.

Applying this to the greater world, specifically to the United States, we can perceive that what we think is political and social conflict may in fact be yielding a better result than either unfettered political party could produce. The dissent and tumult of 2010 has the potential to produce something better than might have occurred in a less challenging environment. 2010 may challenge us, but history may regard it as a year of greatness.

This suggests that the best course of action for us is to take a long-term, dispassionate view of events, try not to guess what we think will happen, partake of information from a variety of sources, and invest conservatively to reflect our assessment. We should embrace the wide spectrum of opinions and themes which are likely to emerge this year, and accept none of them as utterly reliable.

**Andresen & Associates**  
will be hosting a client seminar

**"The Asian Century?"**

**February 11, 2010**

**5:30 - 7:30 pm**

**158 W. Gabilan St. Salinas**

**Dinner will be provided.**

**Clients and their guests are invited to attend.**

**Please call the office by Monday, February 8  
to reserve your spot!**

**Laurie or Renee at (831) 758-1575**

Here's my take on the major themes of 2010:

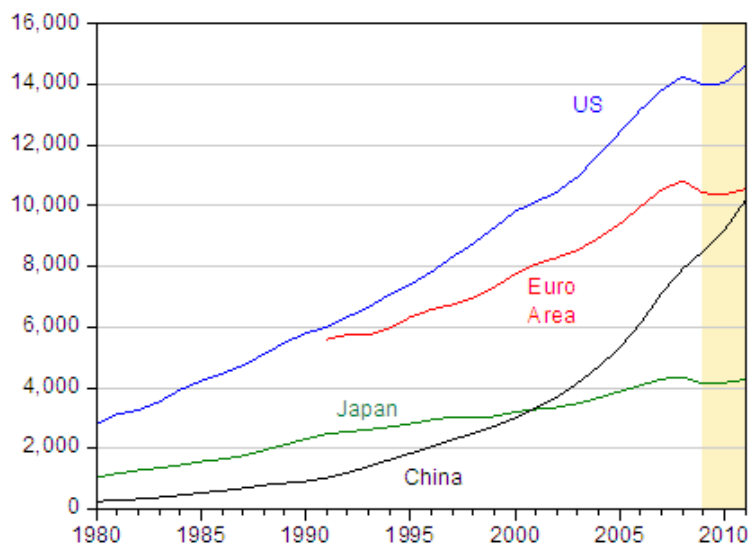
1. We are at a hinge-point for the US and global economies. Whatever happens will probably involve change. The US Government has tapped itself out to stimulate the economy. It may work, or not.
2. Today's giant GDP number may easily be a blip. It appears that the economy has recently been growing at the fastest rate in 6 years. But this is also normal for an economy which is regaining a modicum of investing power when inventories are utterly drained. In other words, we still face the question of what will happen in 2010: a boom, a bust, or something in between? We don't know.
3. The current stock market P/E is about 17. The current Value Line Estimated Median Potential is 50%, which suggests that moderate long term growth is likely. This suggests that bargains are hard to find, but that we are not in a current stock market bubble.
4. Asia in general and China in particular have experienced a mere speed-bump of an economic downturn. Overall Chinese economic growth has recently bordered on 10% per year. This is the fruition of the economic model of the past 30 years, wherein the US has borrowed and spent, and China has lent and saved.

This may or may not be coming to an apogee in the next few years, as China has papered over its own layer of bad credit via government sleight of hand. We may either be on the verge of the Asian Century or about to watch China drive straight into its own pit of unseen debt. We don't know what will happen.

But if China implodes, it could be BIG, involving profound social unrest as well as financial decline. Meanwhile, watch for immigrant populations of Asians outside of Asia to continue to grow and thrive.

5. Russia and Iran are running the same race: can they grow rapidly enough to outrun social unrest and financial instability?
6. Looming over all of this is the demographic bomb of the 21<sup>st</sup> Century. Simply put, as age overtakes the global boomer generation, the populations of many of these countries are due to implode. We may be witnessing a sea-change in world history wherein population begins to decline, and the economic challenge becomes not one of production, but one of falling demand.
7. As a result, my intention for 2010 is to continue to steer a relatively cautious course with lots of diversification. Investing internationally is crucial in today's global economy, despite its obvious risks. We also need to remember that unforeseen news can be GOOD: that in fact things may turn out rather well in the next few years. For that reason, we don't want to flee the field and hide under a financial hay-pile. We need to stay focused on the long-term and invest cautiously.

According to legend, the Tiger brings us challenge, strife, and uncertainty. It also brings us courage, resourcefulness, and hope. Therefore, let us rise to the gifts of the year and press on. We live in interesting times. We may as well fully participate.



As you can see in this graph, from 1980, when China contributed almost nothing to the world economy, its economy has grown more rapidly than that of the US to become a major global factor. At current rates, assuming the Chinese financial structure doesn't implode, the Chinese economy should surpass that of the US within the next 20 years.