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GROWTH ENGINES

As of March 1st, 2010, the news about the economy continues to be mixed. We don't know what will happen during the next six months.

However, history strongly suggests that these troubles will pass, and we will move on somehow to a new era of renewed economic growth. When that happens, the mutual funds which will make you money will be equity-based. That is, they will OWN SOMETHING not loan something. In other words, winning mutual funds will specialize in selecting and holding the stocks of successful corporations.

With that in mind, we took a look at our top 10 stock mutual fund holdings, both now and in the past. These are NOT our top ten performers: these are our top 10 holdings in terms of size. Some or all of these are likely to be in your portfolio. Also these don't differ substantially in terms of how much our clients hold. In other words our clients don't hold \$5 million of one fund and \$10,000 of another. These mutual funds are relatively evenly distributed.

What you are about to see will explain a lot. A lot of press has been generated about the "lost decade" in the stock market. If you look at the Vanguard Index 500 fund, you can see that this description is accurate. But in terms of our individual mutual funds, the past decade has been moderately successful. It is surprising how successful our "tortoise" mutual funds have been versus more exciting higher risk alternatives.

Holding #10 is Royce Total Return. As you can see in both the long term and the short term graphs (Group 2), this has been a winning holding for us. Reaching back to October 1st, 1999, this fund has delivered 8.4% a year, and most of us have owned it the entire decade. It also lost "only" 31% in 2008, making it a relatively less catastrophic holding. Managers focus on small value stocks. With assets under management of \$4 billion they are forced to hold about 450 individual issues to stay in the small value stock venue. This fund can bore utterly during booming markets, as it tends to lag. It's wonderful in the long term. However if this fund continues to grow in terms of assets under management, we will look for it to fall behind since giant small-cap funds tend to be cumbersome.

Holding #9, Sound Shore, is another decade-long holding. As you can see (Group 2), \$10,000 invested in this fund became \$16,680 over the course of the past turbulent decade. In recent years its all-cap strategy has caused it to mimic the S&P 500 Index, which is why we reduced our holdings. There's no arguing with the results. However, we will continue to reduce our positions if this fund persists in behaving like an index fund proxy. We need more diversification in our portfolios than a cluster of index funds can provide. With an R2 statistic of 91, this fund isn't different enough.

In 2008, when all was chaos, we redoubled our efforts to find different yet effective mutual funds. One hallmark of the downturn was that all correlations went to 1, that is, everything dropped. After several months of research, we discovered holding #8, Forester Value. This fund's profoundly risk-averse managers delivered a +0.39% return in 2008, while the S&P 500 dropped 37%. We watched to see if the managers were good at evaluating market conditions or were planning to stay permanently under cover. To our delight, the fund bought bargains in the stock markets and moved out of cash. So we began buying the fund. So far this has been an excellent holding. With a tiny asset base (\$102 million) and very low risk statistics (a .49 beta!), this fund has a well-defined place in our diversified menu. Meanwhile, the managers have recently invested 22% of the fund into undervalued health care stocks.

03/08/2010

	Value	YTD %
Dow Jones Industrial Avg	10,566	1.3%
Vanguard 500 Index	105.21	2.47%
Vanguard Total Bond Index	10.46	1.67%

In contrast, the most notable thing about holding #7, Longleaf Partners, was the crater it left in the floor in 2008. This fund was a perennial champion for a decade, even missing the bulk of the bloodletting when tech stocks imploded in 2000. It lagged in bull markets but performed superbly in tough times, until 2008. Then the managers rushed to disintegrating value stocks like so many geese to breadcrumbs, only to be caught in the net of worsening financial conditions. The fund was down over 50% in 2008. It redeemed itself marvelously in 2009 by roaring back up 54%. Thus, abjectly selling it outright doesn't seem appropriate since it has proven it can come back.

As with Longleaf Partners, we have owned holding #6, Columbia Value & Restructuring, for as long as 15 years. Like Longleaf Partners, this fund has profoundly outperformed the stock market over the time we have owned it. Over the last 15 years, as of September 10, 2009, this fund turned \$10,000 into \$51,736. Some of us have owned this fund that entire time. However, this fund never had any pretensions of safety: it has always been rough-and-tumble, with a large beta and gains to match. In 2008 it shared the bludgeoning of all such funds (-47%), and came back swinging in 2009 (+47%). As with Longleaf Partners, we intend to continue holding it. A little goes a long way.

Holding #5 is a true child of battle. After much thought, we purchased Vanguard REIT Index fund as a way to access the battered real estate market near market bottoms in early 2009. Prior to that time I had been reluctant to buy it because it appeared overvalued. However, after shedding 64% of its value by March 2009, it appeared to be an underpriced venue for real estate, with the kicker of a very high yield of about 7%. In 2009 the fund delivered between 60% to 95% for our clients, depending upon when it was purchased. The yield on the fund is about 4% currently. I intend to gradually reduce our holdings simply to take some windfall profits from this high-risk fund.

We first bought Holding #4, Vanguard Health Care, over 15 years ago. At that time we faced the prospect that the glory years of health care stocks were over. During the Clinton years we faced the prospect that profitability would sink to nothing. In the Bush II years, the fund was sometimes left in the dust by more specialized funds. Yet in the past 10 years, as of January 1st, 2010, this fund has turned \$10,000 into \$24,180. At the same time, the S&P 500 shrank \$10,000 to \$8,691. We've owned this fund the entire time. Vanguard Health Care has never been a standout, yet it has always delivered. Recently I've been selling a bit of this fund only to rebalance and stay diversified. Otherwise our portfolios would be dominated by this holding. Diversification pays.

Jennison Natural Resources was never intended to be holding #3. We moved into this fund in 2008 and 2009 as a hedge against inflation and to provide exposure to commodities and precious metals in the event of a disaster. The disaster has passed, at least for the present. This fund bloomed anyway in 2009: up between 55% and 100% for our clients, depending on time of purchase. Having so deftly executed a "buy low" strategy, my current plan is to gradually "sell high", if only partially. We don't know what will happen, so this fund will stay part of our holdings for the time being. Expect it to behave like 10 angry weasels in a bag. It's not there to be cute. It's there to prevent inflation from eating us. So far, so good.

In 2007, a client called me asking about holding #2, the Fairholme fund. At the time, I was underwhelmed. Previously we had intentionally avoided Fairholme. At that time it was dragging behind many of our other choices. But with a bit more research we became attracted to Fairholme's all-weather capability, and began gradually to buy. As it turned out, this was a very good decision because Fairholme swung wide of most of the 2008 pileup. It then dazzled in 2009 with a blitzkrieg recovery. Part of the managers' strategy included buying back into Warren Buffet's Berkshire Hathaway, which they previously sold due to questions of valuations. I'm impressed. We are moving small amounts out of this fund only to rebalance, and intend to keep it on our playlist for the foreseeable future.

Our #1 holding is Sequoia. We tend to ignore this five-star tortoise because it never stands out: it just plods on its way and delivers over the long term. For many years, this fund was as closed to us as Imperial China. In 2008, the stock market's crash caused the managers to open the fund to new investors, and we took full advantage. 20% of this fund is in Berkshire Hathaway, which makes it essentially a fund-of-funds. Such a position also implicitly drafts Warren Buffet as an assistant manager. That can't be a bad thing. Another 20% of this fund is currently in cash, so it's ready for any bargains which may emerge. Meanwhile, such a low risk posture is likely to make the fund lag...until the next downturn.

So there are our top 10 stock mutual fund holdings. These will likely change a bit in the coming years, if only because other funds rise slightly and move from a smaller position to a more prominent role.

Meanwhile, you can see our commitment to diversification. I'm eating my own cooking: I own all of these funds. Let's become wealthy together.

Administrative note: Pete will be out of the office March 26, 29, 30.

Investment Growth

LONG TERM GROWTH -- GROUP 1

Item(s) from 1-01-2000 to 2-28-2010

Fund	Cumulative Return %	Annualized Return %	Max Front Load %	Max Back Load %	Gross Exp Ratio %	Amount at End of Period \$
● Columbia Value & Restructuring Z	46.81	3.85	NA	NA	0.94	14681.06
● Fairholme	264.66	13.57	NA	NA	1.02	36466.16
● Forester Value N	70.20	5.37	NA	NA	1.25	17019.76
● Longleaf Partners	68.70	5.28	NA	NA	0.90	16869.73
● Prudential Jennison Natural Resources A	420.41	17.61	5.50	NA	1.21	52040.56
● Vanguard 500 Index Investor	-10.40	-1.07	NA	NA	0.18	8960.22

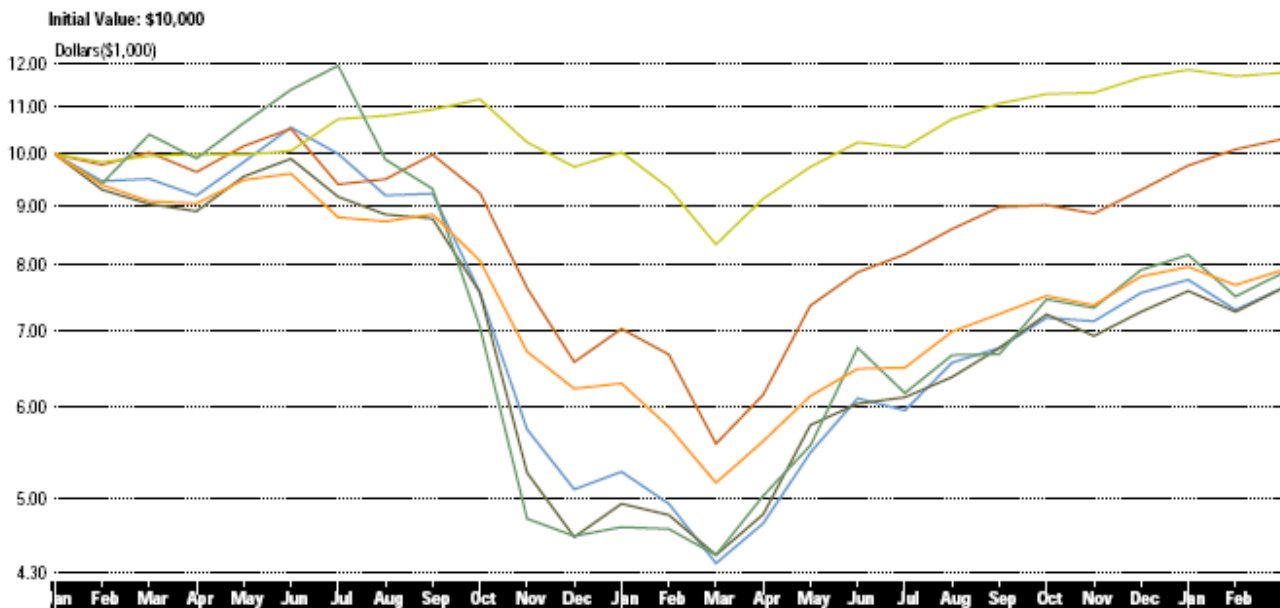


Investment Growth

SHORT TERM GROWTH -- GROUP 1

Item(s) from 1-01-2008 to 2-28-2010

Fund	Cumulative Return %	Annualized Return %	Max Front Load %	Max Back Load %	Gross Exp Ratio %	Amount at End of Period \$
● Columbia Value & Restructuring Z	-23.64	-11.70	NA	NA	0.94	7636.39
● Fairholme	3.09	1.42	NA	NA	1.02	10309.19
● Forester Value N	17.84	7.87	NA	NA	1.25	11783.89
● Longleaf Partners	-23.68	-11.72	NA	NA	0.90	7632.20
● Prudential Jennison Natural Resources A	-21.31	-10.47	5.50	NA	1.21	7868.60
● Vanguard 500 Index Investor	-20.84	-10.22	NA	NA	0.18	7916.31

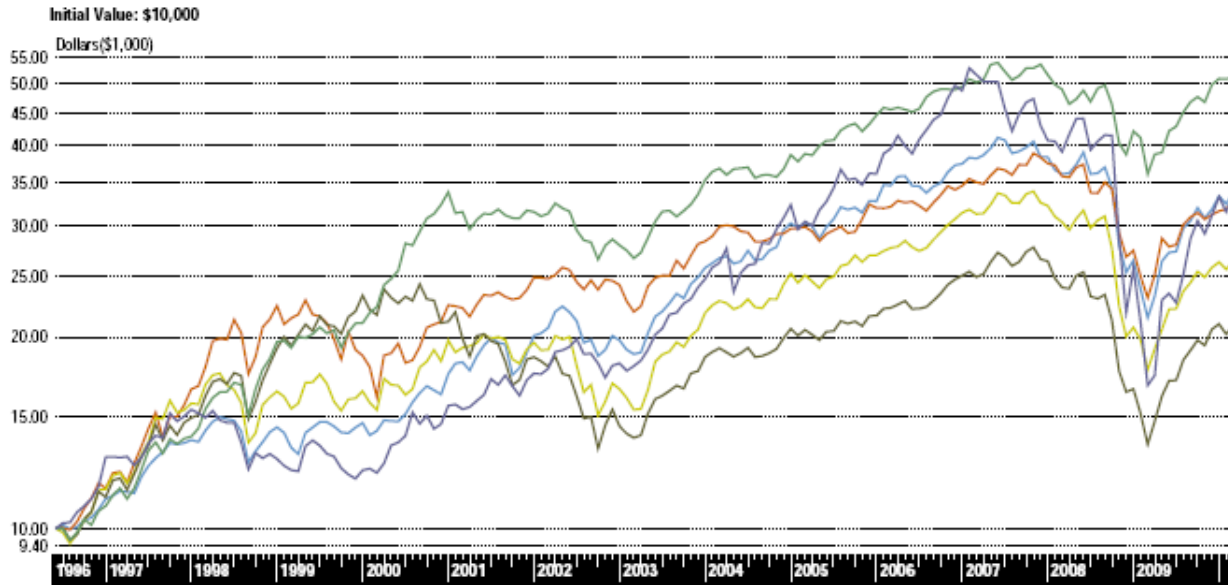


Investment Growth

Item(s) from 6-01-1996 to 2-28-2010

LONG TERM GROWTH -- GROUP 2

Fund	Cumulative Return %	Annualized Return %	Max Front Load %	Max Back Load %	Gross Exp Ratio %	Amount at End of Period \$
Royce Total Return Invmt	236.62	9.23	NA	NA	1.19	33662.18
Sequoia	226.67	8.99	NA	NA	1.04	32666.81
Sound Shore	162.75	7.28	NA	NA	0.92	26275.30
Vanguard 500 Index Investor	108.32	5.48	NA	NA	0.18	20831.74
Vanguard Health Care	411.59	12.61	NA	NA	0.33	51159.38
Vanguard REIT Index	232.06	9.12	NA	NA	0.26	33205.95

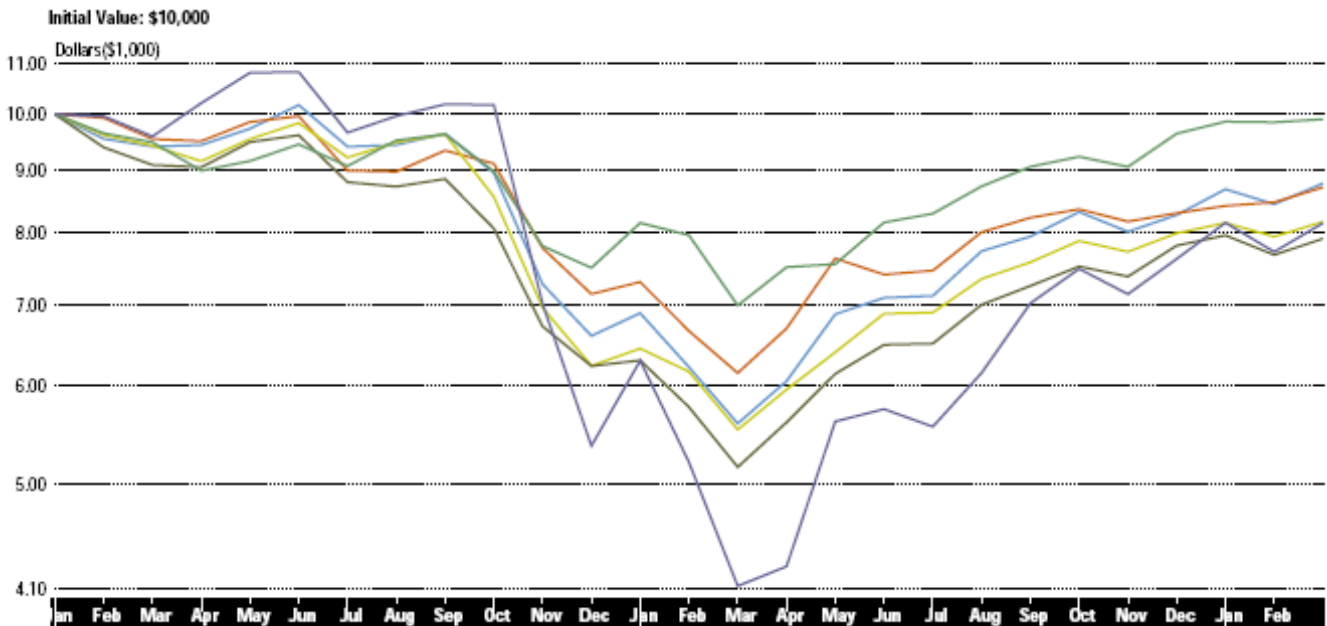


Investment Growth

Item(s) from 1-01-2008 to 2-28-2010

SHORT TERM GROWTH -- GROUP 2

Fund	Cumulative Return %	Annualized Return %	Max Front Load %	Max Back Load %	Gross Exp Ratio %	Amount at End of Period \$
Royce Total Return Invmt	-12.16	-5.81	NA	NA	1.19	8783.97
Sequoia	-12.81	-6.13	NA	NA	1.04	8718.69
Sound Shore	-18.27	-8.89	NA	NA	0.92	8172.68
Vanguard 500 Index Investor	-20.84	-10.22	NA	NA	0.18	7916.31
Vanguard Health Care	-0.91	-0.42	NA	NA	0.33	9908.56
Vanguard REIT Index	-18.48	-9.00	NA	NA	0.26	8151.76





OUR FIRST EVER EARTHQUAKE PREPAREDNESS SEMINAR

You know that we at Andresen & Associates are very risk averse. Thus it should come as no surprise to you that after the financial markets rocked our world in 2008, we are now concerned about what might rock our world literally.

You and your pre-registered guests are invited to attend our very first earthquake preparedness seminar. Please join security consultant John Avery here at our home office at *158 W. Gabilan St.* in Salinas to explore the basic steps to preparedness for The Big One, or at least The Pretty Big One.

Thursday, March 25, 2010, 5:30-7:30 pm

You will learn:

- What you can do in advance of an earthquake.
- How an earthquake may affect you.
- How to manage and employ basic disaster supplies.

Please pre-register because we expect this presentation to fill up, and seats are limited as always. We will provide beverages and finger food: whether we are serving MRE's (Meals Ready to Eat, a disaster ration) is still being considered.

THIS IS NOT ABOUT INVESTING! This is about physical survival in an emergency.

Please contact the office if you plan to attend:

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