



# ANDRESEN & ASSOCIATES

P.O. Box 1434 Salinas, CA 93902-1434

Phone: (831) 758-1575 or 1-800-345-9644

Fax: (831) 758-1576

PETE@ANDRESENASSOC.COM

WWW.ANDRESENASSOC.COM

**NOVEMBER 16, 2010**

11/16/2010	Value	YTD %
Dow Jones Industrial Avg	11201.97	7.4%
Vanguard 500 Index	110.5	9.2%
Vanguard Total Bond Index	10.7	7.0%

## LETTING THE LINE PLAY OUT

As 2010 enters the final few months, Andresen & Associates is remaining vigilant about possible unrecognized risks in the global financial system. I believe that economic recovery is inevitable. I also perceive that the recovery may be very slow, very uneven, and contain false starts along the way.

Recent data, including October's retail sales, suggests that such a slow, uneven recovery is already underway. This can only be a good thing.

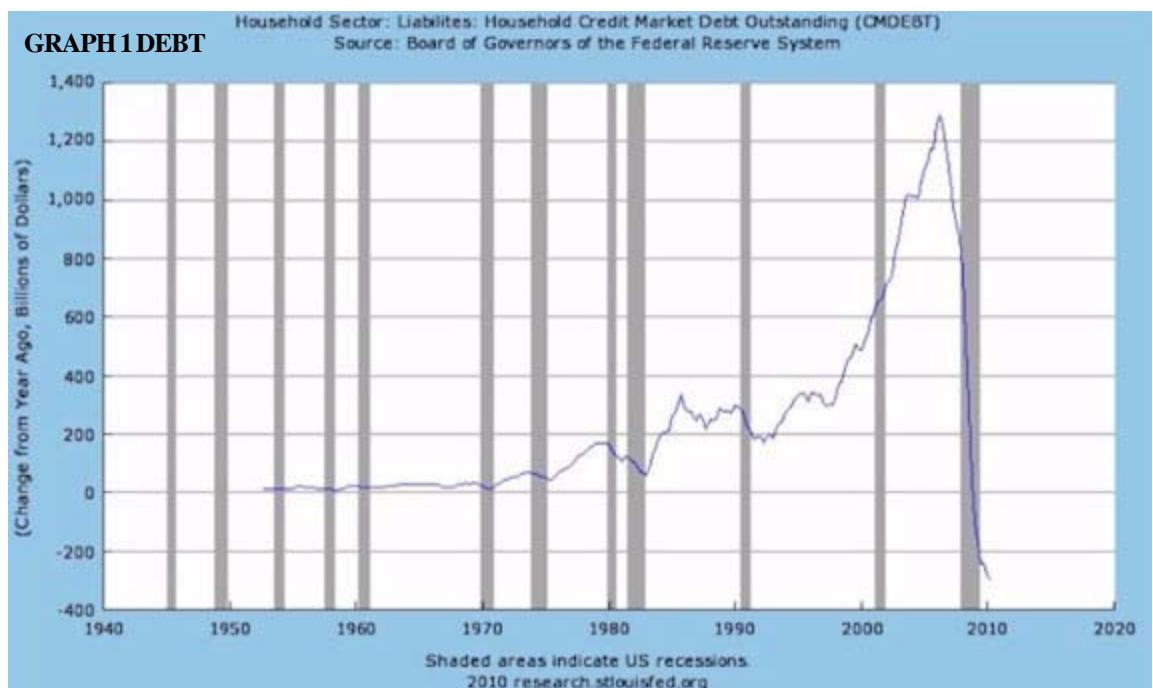
But nobody really knows how much of the injury to the global financial infrastructure has healed. In some cases, such as the ongoing debt crisis in Europe, governments and political entities have chosen to not fully acknowledge the flaws and risks which remain in the system. Partially this is because they can't determine the extent of the financial malaise.

In other situations, such as in the reform of the US financial system, politicians have been dragooned by special interests.

The US government has not embraced the structural changes necessary to reduce inherent weaknesses. Big Wall Street is still egregiously in charge.

On the other hand, capitalism has an astonishing ability to heal itself. To some degree our economy will heal, and would have healed, regardless of government intervention. That reality is one of the fundamental reasons that I regard an eventual recovery as inevitable.

On the one hand, there's this historic graph (**GRAPH 1**). If you take a few minutes to ponder this graph, you will realize that if you felt our recent recession has been truly ugly, you've been right. This graph shows you that after a consumer debt binge lasting for decades, household debt growth utterly nosedived during and after 2008.



Our economy has increasingly been dominated by household consumer spending. That consumer spending has been based upon piling debt on top of debt. Extrapolating from this graph, one may reasonably guess that we aren't about to recover easily.

Indeed, we DON'T WANT to recover easily, because we need to pay down that debt. Any rapid return to debt-based spending could easily slip back into a recession and put downwards pressure on the financial markets. So a slower recovery for consumer spending would probably be much healthier, but also much more grueling for investors who want it all, right now. Then there's this: **(GRAPH 2)**



This is a very HEALTHY indicator. It means that households may be getting the message about reducing debt. I must admit, however, that I'll be more impressed if the savings rate remains high continuously through the next five years, after the immediacy of financial fear is behind us. If that is the case, it will mean that the Financial Panic of 2008-10 was worth it: we learned and went on to better things.

Meanwhile, our stock market is recovering nicely, but we are facing a bubble in gold (**GRAPH 3 ON NEXT PAGE**). Gold is essentially performing as it is for three reasons: one valid, the other two specious.

The genuine reason for a rise in the price of gold is that it is a proxy for the US dollar, for international trading. Non-US corporations need to offset our Federal Reserve's decision to tank the dollar by transferring their dollars into a reservoir of value which will survive a dollar decline. Gold is that reservoir. It is thus functioning as it has for centuries.

A less realistic reason for such an increase in the price of gold is a "disaster hedge" for the possibility that the US economy will sink beneath the waves. The challenge here is that unlike pistons or farmland, gold is utterly devoid of intrinsic use or value during a societal crisis. The unglued fantasy that we will all scamper about in a post-apocalyptic world with purses of Krugerrands doesn't stand the tests of financial history or risk analysis. Nevertheless, gold is definitely a "fear indicator".

Another hollow leg supporting the price of gold is that it's simply in a bubble. George Soros and his gray-faced undead

hedge-fund minions have bought billions of dollars of gold ETF's with the expectation that the dumb money will pile in later, which it has. I am wondering if they will soon short-sell these self-same ETF's when the bovine day-traders stampede for the exits. We don't seem to be in the manic phase of the bubble yet, though.

In conclusion, the price of gold is going up mostly because it's going up. As we learned from housing and mortgages a few years ago, this could go

on for years. When it breaks, we can't be sure of the consequences, although those consequences aren't necessarily dire.

The bottom line is that we are emerging from a big financial mess and there's still a lot of unseen risk out there.

Investing is a marathon, not a sprint. Staying rich and avoiding losses is our plan right now. Unless a major bargain appears, my plan is to keep our portfolios in their current highly diversified and relatively lower risk allocations through the remainder of 2010.

Happy Thanksgiving!

*Administrative note: The office of Andresen & Associates will be closed Thursday, November 25 and Friday, November 26 for the Thanksgiving holiday.*

# Investment Growth

Item(s) from 12-01-2004 to 10-31-2010

Fund	Cumulative Return %	Annualized Return %	Max Front Load %	Max Back Load %	Gross Exp Ratio %	Amount at End of Period \$
● SPDR Gold Shares	193.93	19.99	NA	NA	0.40	29392.73
● S&P 500 PR	0.81	0.14	NA	NA	NA	10080.51

### Performance Disclosure

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate thus an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. For information current to the most recent month-end, please visit <http://advisor.morningstar.com/familyinfo.asp>.

Initial Value: \$10,000

