



SEPTEMBER 11, 2002

THE PETE ANDRESEN INVESTMENT NEWS 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

BARGAIN CITY

Today is the first anniversary of the September 11th 2001 terrorist attacks. It doesn't seem that long ago, does it? Like me, you can probably remember exactly where you were, and exactly what happened throughout that day. Deep in my soul I wonder if I will ever be the same again.

As I've written before, the surprise is that we were surprised at all. In 1989, Martin Van Creveld published his groundbreaking work, "The Transformation Of War," which detailed the rise of populist wars based on culture, religion, and class, instead of nationalism. About the same time, a book by Caspar Weinberger pointed out that the US has never reduced its defense strength more than 50% without encountering a major war within 10 years. And in February 1994, Robert Kaplan published a compelling article in The Atlantic Monthly magazine that spelled out the radical Islamic attraction to Jihad against the wider west. Also in 1994, al Qaeda unsuccessfully attempted to hijack Air France passenger jets

and fly them into, among other landmarks, the Eiffel Tower in Paris. Afterwards, Morgan Stanley Dean Witter security chief Rick Rescorla (who, ironically, worked in the towers and was killed in the attack last year) warned against just such a passenger jet attack. Clearly, there was enough information that we were profoundly vulnerable.

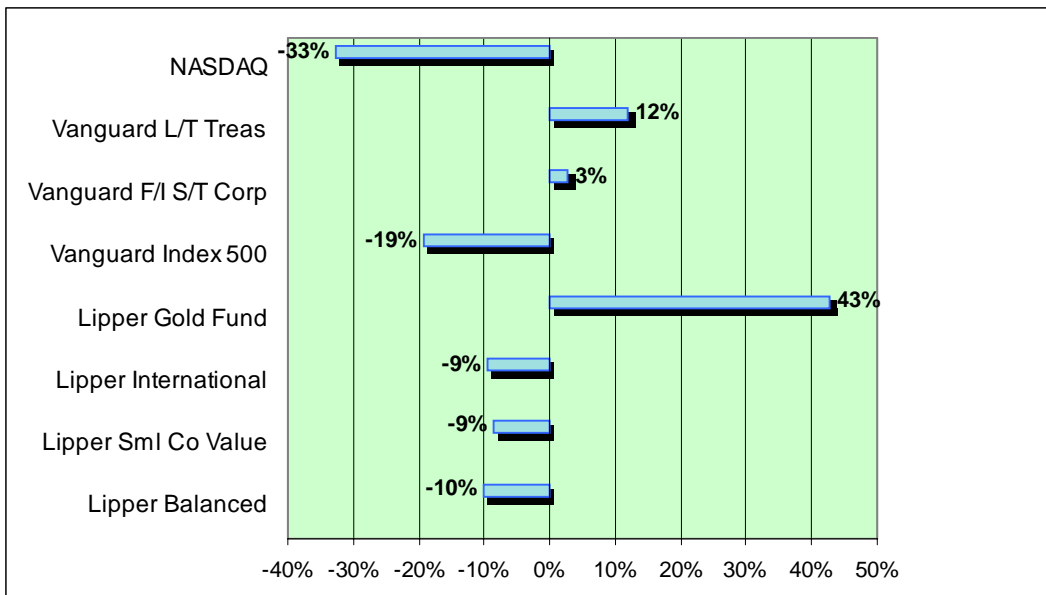
However, our institutions have a habit of suppressing or diminishing the information that runs contrary to the consensus. Prior to 9/11, most security experts who expressed such concerns were dismissed as paranoid nuts. And now here we are.

Of course, the same situation occurred during the technology bubble, which thudded to a halt in 2000. As the stock markets soared, anyone who expressed concern was seen as an old-economy chicken-little dimwit.

A year later, we find ourselves attacked, wounded, and demoralized. Whereas we once disregarded advice to slow down or be concerned, now it is most inappropriate to say good things. So here I go.

It is probable that five or ten years from now we will look back on this time and see it not as a pit of despair and loss, but as the time that the new American Renaissance was forged. Out of this hardship we will emerge stronger, more cohesive, and more moral. In business, we will be more efficient, more productive, and more profitable. The technology we dreamed about in the 1990's will come to its maturity in the new century.

INDEX PERFORMANCES YTD AS OF 8/31/02



We will make mistakes. Leaders will lead us astray, we will have military setbacks, and the innate human vices of greed, lust, and bigotry will continue to disappoint us. But we will rise above these wrong turns in our national path, as we always have. The American path leads up, not down.

Why do I say these things? Because as a nation we've been here many times before. Read about the Civil War, and victory seems pre-ordained. But from 1861 to 1864, it seemed as though the nation had lost its moral and social compass and that the Confederate states would win. Lincoln, at the time the most hated president in the history of the United States, went through commanding generals like a miner eating sardines until he found true warriors who could win battles.

When you read about the opening of the American West you read about cowboys and Indians. You don't often read about the gross corruption that riddled both business and government, and which was only uncovered by stock market crashes and The Little Bighorn debacle.

World War II is another classic example of a national challenge. Our forces spent most of the first six months of the war retreating as fast as they could run, as our peacetime commanders failed repeatedly. Only the onset of a new generation of warriors turned the tide. President Franklin Roosevelt, at the time one of our most detested presidents, essentially stood the constitution on its head to keep our Depression-raddled economy afloat and our beset allies in the war. Yet, in the aftermath, we did more than survive: we thrived.

More recently, this nation survived the cold war-created Vietnam era. A boom in the stock market was accompanied by corporate misgovernance, and a politically-squandered war brought social turmoil to the fore. For a grand finale, radical Moslems in control of the Middle Eastern petroleum supply created the Arab Oil Embargo to compel us to surrender Israel. The worst stock market crash since the great depression ensued. As you can see, it took years to recover. (**Graph 1**)

Faced with the prospects of global war, President Richard Nixon, at the time routinely considered a criminal, bumbled through rationing and other mistakes before checkmating the Soviets with the Chinese card. As he was hounded out of office, it seemed that our greatest days as a nation were behind us.

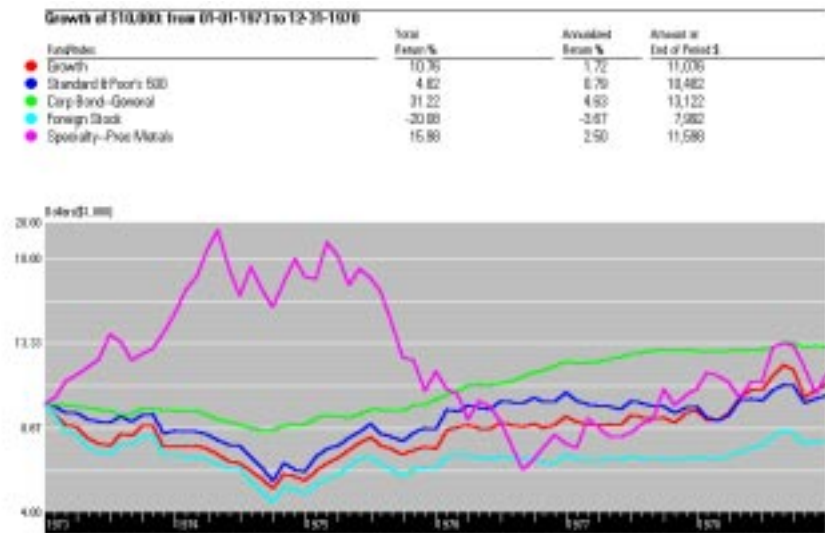
President Carter admonished us to "Think Small". Yet here's what the recovery looked like from the bottom. (**Graph 2**)

I would argue that at this moment, in this challenging point in history, we are economically much closer to the bottom of the decline than we are to the top. And stocks are finally becoming cheap. For example, Royce Total Return, one of our small stock value funds, has an average P/E of 11. That's cheap by any historical measure.

I understand that right now we are all tired and sad, we all want to be somewhere else, and it is almost impolite to be positive. But what I am seeing looks like the seeds of success. Five or ten years from now, you probably won't be discussing the losses you've taken in your investments. You'll be wondering why you didn't buy more.



Graph 1: Notice the spike in precious metals which is quite similar to the precious metal speculation we are seeing today.



Graph 2: From the *bottom* of the decline, the recovery was quite strong.

