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3/13/2015	Value	YTD
DOW	17895	.4%
Van Tot Bond	10.9	.7%
Van 500	191.3	.8%

March 13, 2015

NASDAQ 2.0: The More Things Change...

I am a compulsive runner. Often, especially in winter, I find myself running in early morning darkness, with a headlamp for illumination, through the comparatively well-lit portions of Salinas. I'm impressed by how the buildings here are so often recycled in the faces of social and technological change. What was once a bank in the 1930's is now a restaurant. A former video store of the 1990's is now an exercise center. A tire store has now been converted into a thriving dance studio.

Such creative destruction and re-use is a core feature of our modern economy. We were reminded of that in the past week as the NASDAQ Composite Index approached 5,000 for the first time in fifteen years.

The 1990's era was a golden age for California as our modern internet world first came on-line. The general mindset of that Clinton era was that automation and the internet would create incredible profitability and a booming economy. The associated boom in technology companies pushed stock valuations to levels never seen before, and thus birthed a squirming litter of "dot com" twenty-something millionaires. The July 1999 cover of Newsweek Magazine, titled "The Whine of '99," featured a man agonizing, *"Everyone's getting rich but me!"*

On March 10, 2000, the technology-dominated NASDAQ Composite Index hit a high of 5048.62. But by that time, it was becoming apparent that the internet was not the giant profit machine that early visionaries had predicted. Instead, it was the great destroyer of profit margins. Widely heralded internet dominators, such as Amazon, were not harvesting vast gains. Instead they had created a price war, compressing profits to razor thinness.

When investors recognized this reality, the NASDAQ plummeted. As tech companies continued to disappear or be acquired, the NASDAQ hit a low of 1108.49 on October 10, 2002. In other words, the NASDAQ went down 78% in 31 months. We then experienced a roller coaster recovery and another sharp decline during the Financial Panic of 2008. The NASDAQ never approached its 2000 high until last week.

As you can see in the graph on the back page, the NASDAQ has just caught up with where it was in 2000. Surprisingly, the much-derided "old economy" stocks have done much better than many technology stocks. In its boom, crash, and slow recovery, the internet sector is similar to past technologies such as the railroad.

The saga of the NASDAQ provides important lessons:

Lesson #1: The hot investment doesn't always stay hot. In 2000, the sizzling investment was the NASDAQ ETF (exchange traded fund), QQQ, also called "the Cube." This is a computer generated bundle of stocks designed to mimic the market-weighted selection of stocks in the NASDAQ Composite itself. There was very good reason for the Cube to be so attractive in 1999. It had doubled and tripled over the prior five years. Investors flocked to buy it, and in 2000, QQQ dropped like a stone. After 15 years, patient investors are finally breaking even.

Lesson #2: Buy bargains and sell what is overpriced. Imagine what you would have gained if you had the discipline to sell a bit of QQQ at the high and buy near the low in 2002.

Lesson #3: Diversification pays. Those of us who had limited exposure to technology investments have experienced a relatively good portfolio performance during the past 15 years. Other non-technology investments have thrived. For example, low-risk First Eagle Overseas (SGOVX) has delivered about 13% per year for the past 15 years.

Lesson # 4: Sometimes bad news is good news. When the dot-com bubble crashed, we witnessed a Diaspora of unemployed skilled technicians to homelands all over the globe. Technology is now a global, not localized, phenomenon. The financial destruction of the dot-com Silicon Valley has led to a much more connected and international world. Creative destruction is simply part of the global economy.

Lesson #5: The beat goes on. Since 2000, we've experienced the implementation of wi-fi, social media, the smart phone, the electric car, digital imaging, the warrior drone, and more. Clearly, booming stock market bubbles, or their collapse, do not a culture make.

At this point, the NASDAQ and other stock indices are telling us that valuations are high, but nowhere near the frothy excesses of 2000. Yes, I expect that stock market declines are somewhere out there in our future. I expect more economic turmoil both here in Salinas and elsewhere. Through it all, I expect we'll thrive.

The biggest lesson from the NASDAQ is that patience wins. I'll keep that in mind when I'm running. ■