

ARISTA

INVESTMENT ADVISORS, LTD

Registered Investment Advisor

The Future Calls!

January 7, 2009

To spare you again from slogging through the whole newsletter, here are the conclusions first:

1. The patient has had a serious systemic failure, but will live.
2. We need to be careful in our spending, add to our investments and adapt our financial plans to reflect this temporary decline in value.
3. The human desire to improve our material welfare is ongoing and strong.
4. Economies reflect this deep seated desire and will continue to expand in some manner.
5. Businesses emerge to satisfy this need and to create and satisfy other needs.
6. Markets reflect the health of all of the above and will continue to advance over time and generations.
7. During my lifetime (OK, a year longer than that), in 1946, the S&P index closed at 18!! Yes, 18. Now, January 6, 2009, at 7:12 AM Hawaii time, it stands at 934.34. Can any of us even list the crises, cataclysms, disasters and human folly that have transpired during this period? Think about your children and grandchildren. Inspire them, give them confidence in the future. Shut off the TV and the news. Pursue your dreams and goals and teach others to do the same.
8. Finally: **"Since 1992--**
 - Today, an average consumer can buy a terabyte hard drive for as little as \$89.99. In 1992, a terabyte hard drive, if such a thing existed, would have cost \$5 million.
 - In mid-2008, the four gigabyte (4,096 megabyte) flash memory chip in an iPod Nano cost \$25. But back in 1992, four gigabytes of flash memory would have cost \$500,000, so the iPod Nano would have had to retail for around \$3 million.
 - The Internet virtually didn't exist in 1992. Monthly Internet traffic was four terabytes. All the data traversing the global net in 1992 totaled 48 terabytes. Today, YouTube alone streams 48 terabytes of data every 21 seconds.
 - In 1992, a tiny percentage of Chinese citizens had ever made a phone call. Today there are twice as many mobile-phone subscribers in China as there are people in the US.
 - The entirety of US - China trade in 1992 was \$33 billion. This year it will approach \$400 billion. Trade with India in 1992 was just \$5.7 billion, but is now \$35 billion.
 - All world output in 1992 was \$20.4 trillion, about the size of today's output from the US, Japan and Germany. Imagine the rest of the world didn't exist. That was 1992 the year Bill Clinton was elected president, and Miley Cyrus was born."

—adapted from Bret Swanson's essay "How Techno-Creativity Will Save Us" *Forbes.com*, 12/12/08

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Think about it, understand history and have confidence.

Now, for those of you that are actual or closet endurance athletes, here are the latest musings.

Some records are best left unbroken. Let's hope the intense volatility, fear and financial crises of 2008 remain in a class by themselves. Many post mortems of this past year will no doubt be written. Books, lectures, the creation and destruction of reputations and any and all forms of exploitation are on the way. Business school curricula are most probably already being revised to include case studies of 2008. Let's hope they include a sober assessment of how the Wall Street "brain trust" abandoned the markets and millions of investors at the height of the peril they induced. These captains of finance ran for the lifeboats. Few went down with the ship, at least without enough wealth to 'float' for a long time. No doubt lots of mileage will be logged milking the Madoff debacle for all it's worth. Not \$50B worth, but lots of money will be made "saving" us from future market collapses and massive fraud. It won't work. We are a creative species and some new way to careen along the event horizon of another black hole will be found. As long as we allow opaque investments, concentrations of power, influence and conscious and unconscious collusion between business and government, we will be subject to the extremes of the cycles.

Over the past centuries, we have somehow inverted the consciousness of where we, as individuals, place in the scheme of things. We live in an age of oxymora: mass luxury, mass individuality, "targeted" mass communication. It is important to re-establish some fundamental notions.

There is no "the economy," no "the market(s)," no "the consumer." There are millions and billions of decisions and actions every day. Economists, politicians and scholars aggregate and study these myriad activities and draw conclusions and summaries. But when did your or my welfare become a derivative (now there's a super charged word!) of these abstract concepts? The economy, the market and the consumer do NOT exist apart from the realities of the individual decisions and actions. These concepts are constructs, created as a way to use and manipulate information for many purposes. The "economy" is the derivative, not the individual.

The economy is not a cause, not a "thing," not a concrete "reality." It, if it can be said to exist at all, is an effect, a result and is in constant flux. We have somehow subjugated ourselves to these abstractions. Economists, politicians and scholars have succeeded in committing the "fallacy of misplaced concreteness." I think I discussed this in some past newsletter. This fallacy was described by the great 20th century philosopher, Alfred North Whitehead. In the economy of our lives, this fallacy has had pernicious consequences. It induces the belief that these "authorities" can somehow synthesize and contain the billions of daily economic actions in some knowable, manageable way and direct them as if they are a singular entity, capable of simple influence.

I have called this whole issue the "theory of units" and see it as part of the "tyranny of numbers." We conceptually create a single idea and substitute it for the actual realities in which we live and act. We then let the measurement of this idea influence the very actions it is supposed to represent. We live in a constant comparison between the abstraction and our individual experiences, adjusting our experience to fit the abstraction.

This is why we accept the idea that the proper measure of our investments is based on some index or “benchmark.” None of this usually matters in relationship to our daily lives, particularly at every moment, but we believe it does and, to that extent, it does. One of the greatest mistakes we make is to extrapolate from the moment and believe what is happening now will be forever moving in the same direction, especially when the trend is negative. Oil at \$147.00/bbl, must be going to \$200.00/bbl. If we aren’t conscious of this, we tend to do the equivalent of what financial planners and analysts call “the present value of future dollars.” We do a present value of future feelings, as if the situation will never change. We tend to compress into our present experience all the expectations of the future. The problem with this is that the future is never fully formed or fixed. It ALWAYS changes.

We somehow think that if we can measure something or convince ourselves that we can measure something, we then have the capacity to manipulate “it,” own and possess “it.” Science, enhanced by massive computer power, has reinforced this fallacy. I almost said “hubris!” In a way this is a sign of our fear of complexity, constant change and the uncertainty inherent in all realities. When we give up accountability to these authorities and then modify our lives as if what they promote has greater weight than our own actual experience, we fall into the trap. This is a variation of the question sometimes asked about Congress versus our Congressional representatives. Congress is usually held in very low regard, but “our” congressional people are fine. Since most people believe this, I ask you, what can it mean?

These abstractions create filters through which our knowing and feeling pass. Our sense of wellbeing takes on the quality of the dominant theme in which we are immersed. And, perniciously, our behavior changes to create or reinforce the trend. Self-fulfilling prophecies.

Markets go up and down, but over all the years for which we have information, they move along a generally upward bias. There are periodic intense moves up and intense moves down. As long as humans have the desire to increase their material welfare, markets will reflect the upward bias and declines will be temporary.

After all, the value of everything is in constant flux and the environment of influences is also constantly changing. The only measure that we can really assess is the relationship of our life plans to our resources and willingness to work, save, invest in the future and teach each generation to be confident. We create the problems of our lives and we are amazing problem solvers. I expect that we will solve the current set before us, create new ones and solve them as well.

As we move confidently into the future,

Here’s to (y)our Good Wealth!

Jerry!