

Friends & Relatives,

2002 was dominated by news of the war on terrorism, corporate scandals, and an economy mired in recession. We assessed the capability of our enemy and the current threats to our security, then we determined what would be required in order to eliminate this threat. The Bush administration made efforts to repair a sluggish economy with paltry results. And, there were fundamental shifts in our foreign policy, government, economy, and society.

The rout in Afghanistan continued and the Taliban either fled or simply shaved their beards, hid their guns, and blended into the countryside. Bin Laden's Al Qaeda terrorists escaped and found refuge among sympathetic local tribes in the lawless Pakistani border region. 40 U.S. soldiers have been killed in Afghanistan since October 7<sup>th</sup>, 2001. And while the shock and clarity of September 11<sup>th</sup> has faded, there are individuals among us who will continue to hunt our enemies with a deliberate, methodical, relentless pace. This letter is dedicated to those who have made sacrifices and to those who continue to do so in an effort to preserve our way of life.

The war on terrorism continued worldwide and half of the 24 Al Qaeda terrorists wanted by the FBI have been captured or killed. Significantly, most of the arrests have occurred in Middle Eastern countries. More than 90 nations have indicated they were our allies in the war and 167 are actively blocking terrorist assets; more than \$113m in terrorist funds has been frozen. However, Al Qaeda has hardly been destroyed and it has never been more active. The organization continues to spread its message of hatred and death which is directed at westerners and it is encouraging and financing an ever-shifting alliance of like-minded groups around the world. The CIA detected more electronic activity recently than in the months preceding last year's attacks. Our enemy is still rich, capable, and has made clear its intention to inflict maximum punishment on infidel nations with the use of weapons of mass destruction.

At home, Americans have been insulated from the war and from further attacks, though it is clear that more acts of super-terrorism against Americans are being planned. With our diverse and mobile society where people congregate in large numbers in public places and are linked by vulnerable production systems and supply chains to the essentials of life, we are acutely exposed to catastrophic attacks. The domestic challenge is to brace against terrorism without inflicting damage on our ability to remain a rich and open society, while the international challenge is to strike at terrorists in a way that avoids turning new hearts, minds, and governments needlessly against us.

The Cold War lasted 50 years. The current challenge handled improperly will last as long.

Corporate scandals born of the decadent 90's bankrupted some of the largest companies in the world. Executives like Kenneth Lay, Andrew Fastow, Bernie Ebbers, Scott Sullivan, and Dennis Koslowski virtually stole hundreds of millions of dollars from Enron, WorldCom, and Tyco. "Independent" accountants and analysts at companies like Arthur Anderson and Goldman Sachs neglected their duty in order to obtain lucrative consulting and underwriting business from these firms. The result was that a few dozen individuals dealt a severe credibility blow to a stock market already hammered by fundamental weakness. Worse, I never once saw anybody point a finger at the institutional investors. These are the guys in charge of mutual funds and pension plans with *hundreds of billions* of dollars under management; they own millions of shares, have direct access to executive board rooms, and possess the knowledge to catch these kinds of improprieties. It would be nice to see some of these people sacked, sued, and have their pensions evaporate in return for their neglect.

The U.S. economy was kept afloat by historically low interest rates, steady consumer spending, and robust real estate prices. Meanwhile, dwindling tax revenues pushed state budgets into the red; California alone suffered a \$21B shortfall. Proof positive that politicians are short-term thinkers who exist in a system that tolerates such behavior.

Four years after the Clinton administration allowed Iraq to expel the weapons inspectors without any recourse, President Bush chastised the U.N. and got them back in. He was right to employ the U.N. to achieve his objectives so that the U.S. could avoid looking imperialistic in a region where there's a risk of jeopardizing precarious Arab alliances. At home, Bush's popularity remained high, and he declared Iran, Iraq, and North Korea to be an "Axis of Evil". While it's obvious that these are objectionable states this kind of rhetoric distracts from the immediate enemy who has no nation but whose army of thousands is mobilized, committed, and spread out like a cancer worldwide.

The republicans strengthened their grip on the House of Representatives and retook the Senate during the midterm elections. A combination of high approval ratings for the Bush administration and basic outmaneuvering of the democratically controlled congress led to the republican victory.

The Homeland security bill was passed, providing for a merger that'll consolidate 22 units from 12 different branches of government. The office will have an annual budget of \$37B and 169,000 employees. I believe mergers rarely work out and I have little faith in government bureaucracy. Still, there are some elements of this department that are helpful even if they are too grand in scale. Simply changing with the times, scraping cold war doctrines that spawn programs like the Anti-Ballistic Missile program, supporting former foes like Russia with mutually beneficial increased trade (e.g. oil), and refocusing domestic and foreign policy on counter-terrorism would do more to improve national security.

President Bush reshuffled his economic team in an effort to get the economy moving. The policies implemented to date have had little effect on lowering unemployment or stimulating demand and some new tactics will be required of the new cabinet members.

72% of the U.S. population now uses the Internet for communications, transactions, and entertainment. We witnessed the conclusion of the dot com shakeout. Amazon, EBay, and Google won by providing products and services that allowed anybody to become more efficient and effective in business and leisure.

As for us: we're still living and working in the Bay Area. Andrew's in 5th grade and enjoys studying math and science. Liam is almost two years old and we've only had to make one trip to the emergency room with him which is remarkable considering his daring nature. With a growing family we haven't been outside of the states for a couple of years now. However, we recently got passports for the kids and we'll be traveling before the New Year. We always enjoy hearing from our friends and family. Even if it's just to say "hi," get in touch anytime.

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*Merry Christmas  
&  
God Bless America  
The Cottrell Family*

I track a lot of issues over the course of a year. This letter started out at seven pages and a lot of developments and events were removed in an effort to confine it to two. Everything, the good and the bad, needs to be considered in order to gain the proper perspective on the world and society in general. The trends I found most encouraging over the past year were the progress in the war on terrorism and, lately, early signs of fundamental strength in the U.S. economy. And when I reflect upon all that I have studied, I remain optimistic about our future and about the world we'll leave for the next generation. By the way, if you're curious about the other five pages you'll have to give me a call.

*Eternal vigilance is the price of liberty.* - Wendell Phillips (1811-1884)