

# **Central Plains Advisors, Inc.**

## **Interim Market Update**

**2/26/01**

### **Could it Happen Again?**

Although history never absolutely repeats itself there are many lessons to be learned. We have been through a five-year period of time not unlike the 1920's.

#### **1929 Prelude**

1. Generous monetary policy allowed an investment boom of major proportions (autos and radios).
2. A new era was declared by one and all.
3. The leading economists of the time, Keynes and Fisher, declared that the stock market was at a new permanent high level and there would be no market crash in our life time.
4. In the White House we had an engineer who thought he could micro manage the economy. (Hoover 1928)
5. Then along came October 1929.

If one were to substitute yesterday's names for today's names, and in particular exchange Greenspan for Hoover, we have a very similar condition.

The possible policy moves to be made during the next several years cause us worry. In the 30's all the way to World War II, which bailed the economy out, most everything the policy makers in Washington did made things worse. Note the following:

#### **The Cure that Killed**

1. Taxes were raised to balance the budget
2. Money supply was reduced by 33% (banks wouldn't loan).
3. Tariffs were imposed to protect domestic industries.
4. Government intervened to the excess creating wedges between properly operating supply and demand functions in the economy.

As of this writing only number one (taxes) is a problem, but it's a big one and could very well start the dominos falling. This economy desperately needs a huge tax cut to bail out the consumer who is, on balance, in desperate financial shape. Even W's proposal is too timid. In our opinion congress is fiddling while the economy is burning. Caution is warranted. Government bonds look good.

Past Performance is no Guarantee of Future Results