

# Interim Market Update



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## FOOD FOR THOUGHT

The U.S. economy is in real trouble. As bad as that is, the rest of the world is in worse shape. The stock market believes that all the government intervention will help—it won't. Why? Our public policy is much the same as it was in the 1930s. At that time, Hoover and Roosevelt made a depression out of a recession. The bond market doesn't know what to do. On one hand, it's worried about private sector default and depression, and on the other, federal deficits and possible hyperinflation due to huge increases in money supply.

The enclosed paper outlines our thoughts as to why we have gotten into this mess. As Mark Twain put it, "History doesn't repeat itself—at best it sometimes rhymes." We never seem to learn from our past mistakes.

Now what do we do with our investments? Please note the total returns net of our highest fee for the various programs we have designed to navigate the stormy waters we see ahead. At this point in time, we believe Bison Bond I is the place to be. If you have additional funds, Bison Bond II through Bison Dollar V should add additional strength to your portfolio. If you would like a copy of our Bison Master Book, and/or a copy of our recent PowerPoint seminar presentation, please advise.

<b>Bison Bond I (Govt. &amp; MMF)</b> .....	<b>18 yrs.</b> .....	<b>11.4%</b>
<b>Bison Bond II (Govt.-L&amp;S)</b> .....	<b>4 yrs.</b> .....	<b>15.4%</b>
<b>Bison Bond III (Govt. &amp; Gold)</b> .....	<b>4 yrs.</b> .....	<b>7.0%</b>
<b>Bison Bond IV (Govt.-L/S-Gold)</b> .....	<b>4 yrs.</b> .....	<b>8.9%</b>
<b>Bison Dollar V (Dollar-L&amp;S)</b> .....	<b>2 yrs.</b> .....	<b>25.0%</b>



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**Disclosures:** As benchmarks for comparison, the indexes used represent an unmanaged, passive buy-and-hold approach. The volatility and investment characteristics of the benchmarks cited may differ materially from those of CPAI. Please be advised that the comparison to the S&P 500 is not an apples to apples comparison, as they are a different class of assets.

The account performance figures reflect the reinvestment of dividends and capital gains. Past performance may not be indicative of future results and does not guarantee positive returns. The performance results for 1991 through 2004 have been independently compiled by CPAs from information provided by CPAI; CPA compilation of 2005 through 2008 are pending.

The period of 1991-1999 was one of generally rising stocks and bonds. The period of 2000-2003 was one of generally lower stocks, but rising bonds. The period of 2004-2007 was one of rising stocks and bonds. The year 2008 experienced a stock market crash and average bond market.

# WHY THE MELTDOWN?

## 1. FRB–1920s to date

- With new tools in hand they flooded the economy with money during the 1920s.
- In all 10 post WWII recessions, the Fed used monetary policy to turn things around. What's wrong with that? In a capitalistic system, recessions are a cleansing operation–creative destruction. A severe moral hazard has been created.
- *FRB gets an F.*

## 2. Investment Delivery System–1920s to date

- This system has an enormous conflict of interest and other problems:
  - i. Broker and client
  - ii. Investment banking clients and investment research
  - iii. Advisor industry–commission and fees based
  - iv. Dog and Pony Shows–Economists
  - v. Vanguard–force fed money into index funds
  - vi. Buy and hold–cannot time the market
  - vii. Bernie Madoff Model
- *Wall Street gets an F.*

## 3. Government Intervention–1930s to date

- Hoover (Engineer) and Roosevelt (Aristocrat) made a recession into a depression.
  - i. Raised taxes
  - ii. Increased tariffs
  - iii. Propped up wages
  - iv. Put government in competition with private industry
  - v. Favored labor–blamed Wall Street
  - vi. Price controls–farmers killed hogs
  - vii. ABC Agencies and red tape
  - viii. 1,400,000 accountants; 1,000,000 lawyers
- *Government gets an F. (Note attached graphs)*

#### 4. Academe–1950s to date

- University of Chicago Harry Markowitz–MPT
- University of Chicago Eugene Farma–EMH
- University of Chicago Ibbotson–Mathematical Formulas
- University of Chicago Black and Shoales–Option Pricing–LTCM
  
- Keynesian Economics 90/10% vs. classical (Austrian).  
Read the depression wrong.  
Austrians were right.
  
- Consulting Firms & A G Becker–Callan Assoc.
- Investment Committees Diversification and correlations
  
- *Academe gets an F.*

#### 5. Debt Accumulation–1980s to date

- Every company got into the financing industry–Final result was Wall Street Finance–1990s & 2000s.
- Conventional wisdom was “Those not using leverage are fools.”
- Animal spirits accelerated–Reagan tax cuts
- Labor fell behind in “real” incomes.
- Spendthrift society–boomers spend now, worry later.
- Bankers–both real and wannabes–destroy the financial system.
- *Excess leverage gets an F.*

#### FINAL NOTE–Our greatest fears:

- Social mood turning ugly–riots, tax revolt
- Federal Government going bankrupt.
- World War III.
- *We ALL get an F.*