

Central Plains Advisors, Inc.

March 2003

Interim Update

A Day Late and a Dollar Short

Just as we were beginning to notice that the move to safety in government bonds was giving way to the real reason to do so – deflation, the financial markets exploded in the opposite way we expected. We guess that is the reason we are not billionaires and living in Shangri-La.

There is a great lesson in all of this. The financial markets have an uncanny way of making all of us very humble. On the other hand, these types of moves are near wholly psychological and have very little to do with economic fundamentals.

What does all this mean?

1. Nothing in the long run, economic fundamentals will prevail.
2. One should not succumb to what behavioral economists call “myopic fear of loss”
3. Don’t fall into the “somebody knows something we don’t” syndrome.

We suggest you do just the opposite – the market is once again giving us a chance of a lifetime to increase our position – this is the correct posture one should take.

Last week, in visiting with one of our clients, we suggested that the market decline was good for us, after all, we could buy at lower prices. He laughed and said “You know I guess I have been looking at the markets the wrong way for all these years. I thought we wanted our investments to go up in value.”

He stopped us right in our tracks. We quickly retreated from our sales pitch and moved on to other things. But, you know it’s true – every time over the last 12-years, if one had added to their position on market declines much would have been gained. The constant comment vocalized by financial experts that one should not buy government bonds as they are at forty year lows in yields is utter nonsense. Such an opinion expresses a complete lack of knowledge of where we are in the economic cycle.

There is a large body of thought that believes there is a bond market bubble just as there has been and continues to be a stock market bubble. We agree! But the bubble is in corporate and municipal bonds, not government bonds. Please remember our oft repeated thought that all corporate bonds are marching toward junk. As for municipal bonds, note the chart on the back of this page. Do you think there might be trouble coming there?

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