Central Plains Advisors, Inc

Interim Bond Market Update

5-24-2000

Alan is our Buddy

On the interest rate front these are very strange and unusual times. The current situation has only happened 8 times in 40 years. As we have mentioned before, every time the Fed raises interest rates during these periods, the better off we are. It's counter intuitive but there always becomes a time when owning the highest quality long term government is the only place to be. This is one of those times.

Mr. Greenspan has told us now for over a year that he will continue to raise rates until the economy slows. Although he says not, he is in fact targeting the stock market. Whether he is correct or not in his policy assumptions (we think he isn't) makes no difference

An inflection point occurs when market participants see the wisdom of going as long as they can in non-callable credit risk free assets. Why? They expect that within a reasonable length of time all rates will go appreciably lower and capital gains are only available in long dated bonds. Yes, for a time short term rates will be higher but that will be more than compensated for in capital gains. Never buy bonds based solely on yield comparisons. Then one day, say in six months to a year, short rates will be extremely low without benefit of gains – long term rates also will be lower, however one will have achieved more principal through gains with which to invest all be it at lower rates.

This is what we call **Total Return** and that is what we do best. Please note the following mathematics of total return as well as an actual 6-½ year study as of the close of business 3/31/00.

Please keep in mind there is no inflation except that which will be attempted as the economy slows. Business people will try raising prices in order to maintain profits. When the stock market goes lower many traders turn to commodities. The other thing that might happen on a short-term basis could be the selling of government bonds to cover stock losses. We believe this may have been going on over the last month. None of this will be sustainable. Alan is our buddy.

As James Carville once said if he ever comes back in another life he doesn't want to be the Pope, but rather the bond market. We have little use for him but he's right about the importance of the bond market.

Mathematics of Total Return

Assumed Facts

Interest Rates

Type of Asset	Today	In 1 Year	Change
1 year government	7%	3%	-4%
30 year government	6%	4%	-2%

Investment Results

	Invested Amount	Proceeds	Total Return
1 year government (1)	$100,000	$107,000	7%
30 year government (2)	$100,000	$138,800	39%

(1) Matures in one year	Principal $100,000	Income $7,000
(2) Sell in one year	Principal $132,800	Income $6,000

Don S. Peters