

Interim Market Update



Central Plains Advisors, Inc. • 9415 E. Harry Ste 201 Wichita ,KS 67207 • Economic Consulting & Investment Management

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The Move to Lower Rates

You have probably noticed that the 30-year government bond has been rallying for nearly two months. See Chart #1. Once again we appear to be on the road to much lower interest rates and higher prices. As we have mentioned before the entire counter move from the first of the year through the end of June was based upon a 1970's mentality (high inflation; closed economy), which is no longer valid. Once these counter moves get started the traders (not investors) get nervous and head for the hills. During the year 2005 the average daily volume of government bonds bought and sold was something north of \$450B. Most of it was purchased with borrowed funds, to boot.

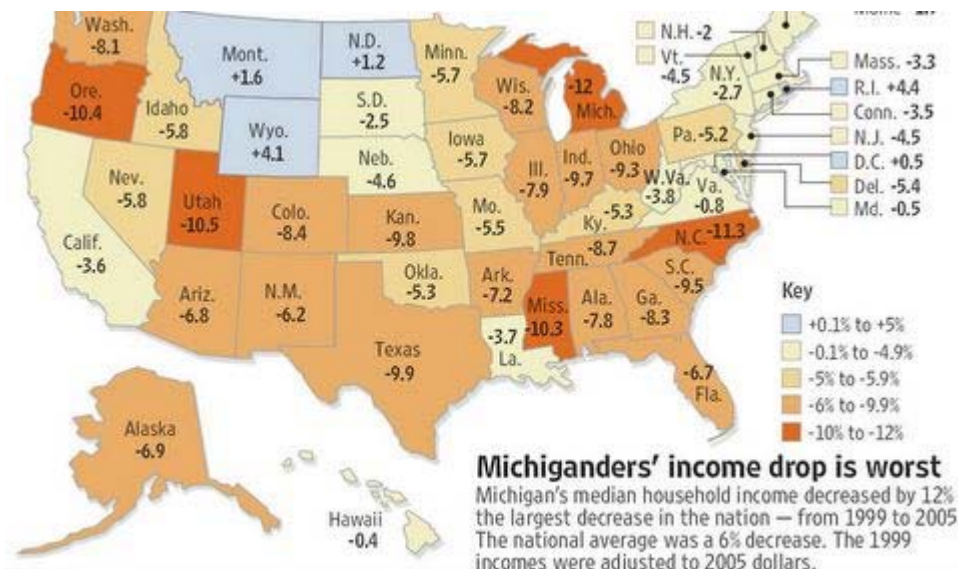
Now you might ask: Why didn't we move to the sidelines? The answer is: We did catch some of these short-term moves, but not all. One knows the proper selling point only in hindsight. If the economic fundamentals are with us, we believe it is better to add to ones position during the dips. The fundamentals have been and continue to be with us. We would suggest that it is not too late to take advantage of current prices. The possibility of the 30-year government breaking 4% on this move (as the 10-year has before) is great.

Again, let us warn you of the up coming weakness in the economy. Now is not the time to be taking on more risk. Please take particular note of the following map, chart #2, which depicts the state of the American household. Mountains of debt and no income are not conducive to long-term economic growth.

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