

Another Day Later and Deeper in Debt

August 25, 2003

It does appear as if the continued ease by the Fed plus the Bush tax cuts are having a stimulating effect on the economy. The problem, however, continues to be that the amount of debt that is needed in order for the economy to advance just a little bit, is enormous. Growth predicated on borrowing is generally not sustainable. Only the use of savings can do that. The following is the gross amount of market debt issued for the first six months of this year, as compared to the same period last year.

<u>Total Borrowings</u>	<u>\$3,600.0 B</u>	<u>+43%</u>
Government	\$328.4 B	+41%
Agencies	\$683.6 B	+51%
Munies	\$236.8 B	+20%
Corporate	\$417.0 B	+40%
Asset Backed	\$297.6 B	+24%
Mortgage	\$1,700.0 B	+65%

Not all of this borrowing, of course, is new money. Much of it refunds old debt. Be that as it may, you can see that liquidity is very strong – money is readily available. It is the hope of many economists that all this activity will lengthen and lower the debt service of most corporate and personal debt. In reality, it isn't helping that much in that the net debt times the lower interest rate makes the cost of carry greater than before. We just don't believe we can borrow our way out of this sluggish economy. Our best guess is that the increased activity we are seeing is inventory building, which will probably be overdone sometime between now and year-end. Do not expect an old fashioned recovery. Slow growth remains the best we can hope for. Don't expect inflation, there remains an excess of everything but brains and if you have an interest in where the next financial accident may occur, we suggest you go to www.prudentbear.com and in the archives find a guest commentary by Richard Benson entitled "Fannie and Freddie's House of Cards." We have a strong feeling that the Feds may let both these irresponsible government sponsored entities go down for the count. If you own their stock or bonds, we would suggest their sale. Just a word to the wise, we think.

Keynes once said that stocks may remain overvalued longer than your patience. Maybe for some, but not for us. Stocks are too high to make average returns. Bonds other than governments are too high and governments (long that is) are too low in price and high in yield. A 3% 30-year government bond remains in our future.

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