

HEAVY SUPPLY WILL FIND BUYERS

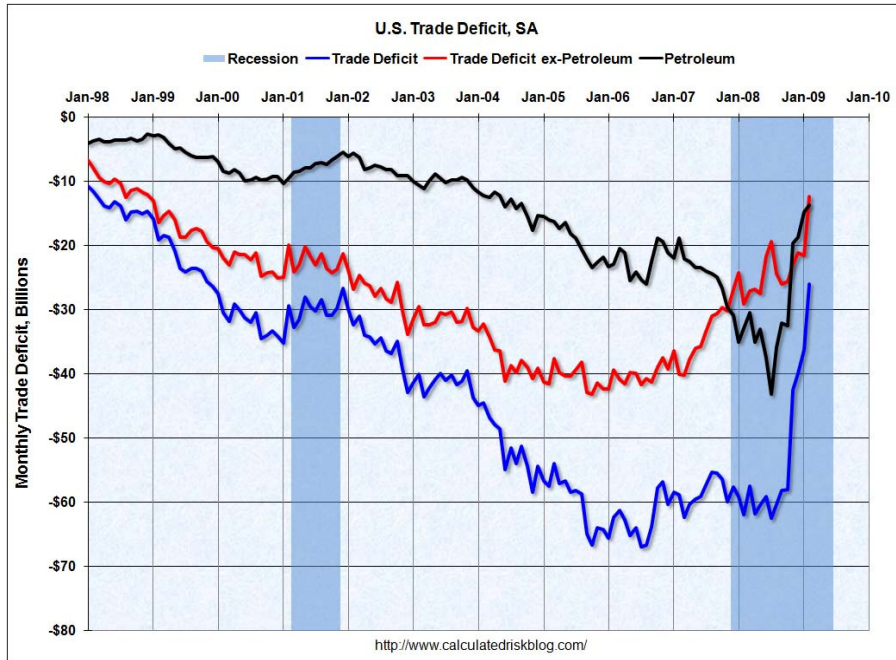
WEB BUZZ 2009.05.04

The U.S. trade deficit has improved dramatically over the last 18 months. Please note the first chart, which depicts this improvement. Three factors were paramount in this change. (1) There has been a decrease in the number of barrels of petroleum imported, as well as a decrease in cost per barrel. (2) Other imports, mainly from China, have likewise declined. (3) Exports have also declined, but at a lower rate than the decline in imports. This change is positive from the standpoint of the U.S. balance sheet; however, it reduces the amount of money available to foreign investors to buy our securities.

This begs the question: Who is going to be the buyer of all the government debt that is coming to market? Please note the second chart below. All of the traditional buyers of government securities presently own very few, if any. Over the past 18 years at Central Plains Advisors, we have been turned away time after time by those who only wanted to invest in common stocks—no bonds, thank you, and in particular, no government bonds. We all know what this asset allocation has led to in the way of total returns for most investors. For point of comparison, from 2001-2008 our Bison Bond I program returned 10.3%, net of fees, versus a return of 1.1% for the S&P 500. To date, there has been little change in such heavy allocation in common stock but there will be. It may take some time, but a moment is destined to come when it becomes apparent to the common stock cult of the baby boomer generation that high quality bonds are where good comparative returns are going to come from over the next three to five years.

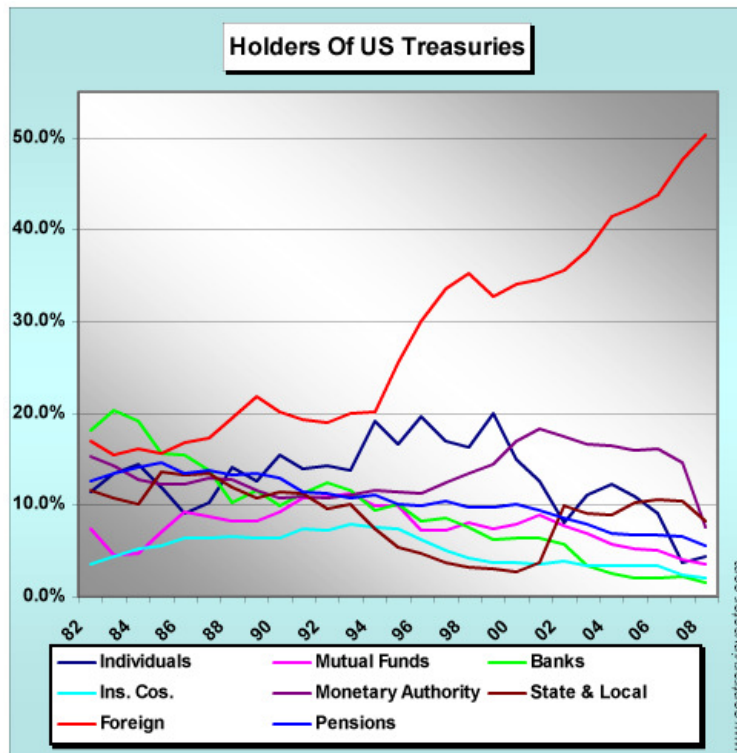
Returning to the old fashioned allocation of 60% stocks and 40% bonds, which in many instances has shifted to 90%/10%, will go a long way toward providing all the buying power necessary to take care of governments to come.

Chart 1



Adapted from the Calculated Risk Finance & Economics Blog

Chart 2



Adapted from ContraryInvestor.com