

Irrational Myopia

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Rather than being myopic about seeing market values of government bonds decline, one should see it for what it is: another magnificent opportunity to obtain excellent returns from the highest quality asset in the world. Do you know whom the traders are that are causing this decline? *The Traders* magazine of July 2003 has page after page of pictures taken at the recent 67th annual dinner of the Security Traders Association of New York. We wish you could see their narcissism. We wonder: are these folks really dry behind the ears? This is our competition. Do you really believe they know what they are doing by their recent selling, which is causing a decline in values (increase in yields)? They have doomed this potential trepid recovery in the economy to extinction. With total debt in the country being some \$32 Trillion, what will be the cost of the 1%+ increase? No recovery, no inflation possibility. Where's the beef? The organic component of this economy is destined to become weaker. When this is finally realized, the rush to safety will be swift.

The only way we can have a recovery of any significance is for the business community to expand. How will the increase in interest rates effect their expansion decisions? On the consumption side, housing refinancing will come to a halt, which has been the mother's milk of consumer spending. Can consumer durable manufacturers (cars, appliances, etc) continue to offer 0% interest rates? Well you say short-term rates have not increased, so maybe that's not a problem. Oh yes it is! How long will the banks continue with a prime rate at 4% for such companies that have little to no profits? Are you kidding me? What good is even a 0% interest rate if you can't get a loan? How bad is that?

The bond vigilantes are wrong again, just as they have been for the last 20 years. Let not your heart be troubled. This sharp hiccup, while causing momentary discomfort, means lower interest rates for government bonds are even more assured and likely to be even less than the 3% which has been our target since 1995.

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