

Is a Recession In Our Near Future?

January 31, 2005

In a recent [Investment News](#) (January 24, 2005) article entitled *For Number of Advisers, Cash is King Right Now*, several advisors, including Central Plains Advisors were mentioned. We would suggest you might read this, which will allow you to get other advisors' thoughts concerning the difficult time we are now facing. We were quoted correctly, in saying that we were fearful of not getting back into the market in a timely fashion. As you know from our communications with you, we expect deflation and much lower long-term government bond rates. However, we are very much in the minority and the majority always makes the **current** market, not the future market at the margin. In late September, we noted a continued increase in the inflation rate, which led us to believe a possible spike upward in rates might occur. As a matter of fact, it did, on a short-term basis thus making our sell move look extremely good. However, lately, longer-term rates have begun moving downward again.

So, where do we stand now and what do we expect? The fourth quarter GDP of 3.1% represents a notable slowdown in economic activity. If you may recall, when the 3rd quarter GDP of 7% was announced, we opined that this would be the high point of this business cycle (not the peak, but the high point). The trend since this 7% has been downward with the 3.1% being the slowest since 2% recorded in the 1st quarter of 2003 (see the chart below). We believe we are beginning to see a shift in the consensus concerning the inflation/deflation argument. With that in mind, we will be looking for a reentry point (cash to long-governments) **unless** our analysis of economic fundamentals points in a different direction.

