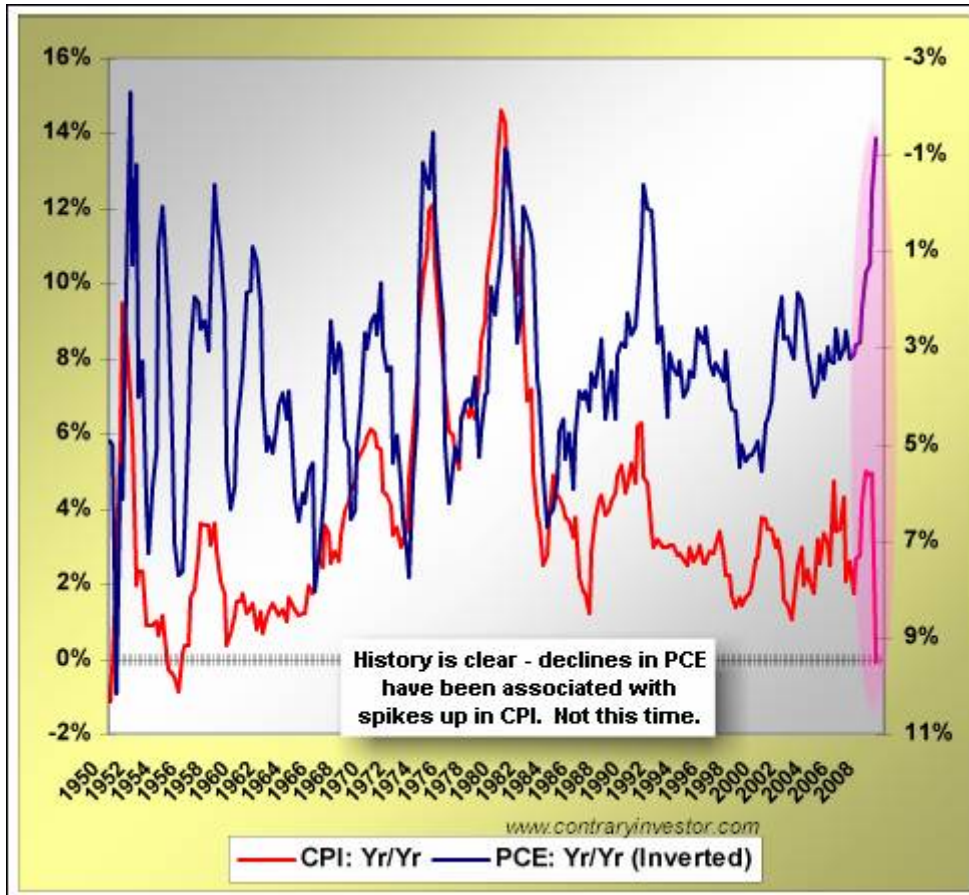


IT IS DIFFERENT THIS TIME

WEB BUZZ 2009.03.09

Many who have questioned our government bond strategy are finally seeing the evidence of what we predicted would happen when the huge debt buildup began in earnest during the late 1990s. We remember putting in print “Are we the only ones worried about debt?” As the debt accelerated the stock market rally drew more and more unsuspecting investors into its clutches. Even the extreme market valuations of 2000 could not alter the euphoria. The bear market rally from the lows in late 2002 and early 2003 again convinced most that it is always and always stocks for the long term. Never buy government bonds, after all, who will buy them. Our answer to that then and now is the following: 1) the foreign buyers of our sovereign debt will remain in place, 2) the US consumer will be saving like in “the good old days”, and will be buying government bonds in large quantities, and 3) many will begin to sell stocks and buy government bonds, and 4) if all the above fails (and it won't), the Federal Reserve will buy the debt. All of this is now taking place. Folks, we have a bird nest built on the ground, if only we can keep our heads when those around us scoff at our investment stance.

Many wonder what is different this time. The current recession (moving toward depression) is deeper and longer to date than most post-WWII recessions. Please note the chart blow. It clearly indicates that something is different this time. Always before, inflation either peaked, and/or coincided, with the decline in personal consumption expenditures. The decline now going on is associated with a decline in inflation. Deflation, here we come. Better said, here we are!



Adapted from www.FinancialSense.com