

# Interim Market Update



Central Plains Advisors, Inc. • 100 N. Broadway Ste. 130 Wichita, KS 67202 • Economic Consulting & Investment Management

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## A CALL TO ACTION

**The extreme intervention of the federal government into our free market economy does most surely enhance our economic destruction. We are headed for a long and serious economic nightmare. Those primarily responsible for our plight: politicians, Wall Street, and their complicit cohorts, lawyers and accountants, are now managing the show on our behalf. The inmates are running the prison. They are in the process of making the same mistakes that were made in the 1930s. It's déjà vu all over again.**

**Where is one to go with his investments? It's obvious the politicians and the bureaucracy are in control, and they will seal our fate. No law, explicit or implicit, is sacrosanct. A California town, Vallego, recently declared bankruptcy and is asking the court to cancel their retirement contract with police and firefighters. At the federal level, social security and Medicare may be next. Any new law that an economic illiterate can dream up to save his or her reputation is on the table. Gold would seem to be a logical place for shelter. But there are two enormous problems, if you please. One, the politician can take it away from you by edict—just as in the 1930s and, two, the U.S. is a younger civilization, and not accustomed to using gold for currency. To avoid the risk of losing this safe haven, one would probably need to go to a country with a history of actually having used gold for legal tender. That, of course, conjures up many other problems. The one thing Washington cannot do away with is dollar-denominated government bonds. Without this market, they cease to exist. Their very way of life is dependent upon this as their stock in trade: 1) dollars for favors, 2) dollars for influence, 3) and therefore, dollars for power. Forget hyperinflation. That puts them out of business.**



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Let's be frank. No one has a perfect crystal ball, but to ignore the currently most hated asset class in the world, government bonds, is a huge mistake. One must act quickly and decisively during this period of panic and turmoil. When rational thoughts return, it may be too late.

Also remember going forward, another real problem is the consumer. In many ways, he is in more trouble than the banks. Please note the following table, which illustrates our overall debt problem and its unraveling, which is now underway.

## Borrowing by Sector

Total Domestic Non-financial (NF) Sectors			
<u>Type</u>	<u>2Q08 SAAR</u>	<u>2007 SAAR</u>	<u>% Reduction</u>
Total .....	\$1,126.7B .....	\$2,515.5B .....	55.2%
Household .....	\$197.3B .....	\$880.6B .....	77.6%
Business .....	\$608.0B .....	\$1,211.6B .....	49.8%
State & Local .....	\$11.0B .....	\$186.1B .....	94.1%
Household .....	\$310.4B .....	\$237.1B .....	+30.9%

Domestic-Financial (F) Sector			
<u>Type</u>	<u>2Q08 SAAR</u>	<u>2007 SAAR</u>	<u>% Reduction</u>
Financial Sector .....	\$1,075.8B .....	\$1,753.4B .....	38.7%

Total F & NF Sectors			
<u>Type</u>	<u>2Q08 SAAR</u>	<u>2007 SAAR</u>	<u>% Reduction</u>
F & NF .....	\$2,202.5B .....	\$4,268.9B .....	48.4%

Adapted from Federal Reserve Flow of Funds Report 9/18/08



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**The table above is the most important view of the future one can find. The acceleration of debt, which has taken place every year since 1991 (except 2000), is now in severe decline. Why is this so important? As Ferlin Husky once sang, “Love makes the world go round, but money greases the wheel.” The first shot across the bow in the ongoing and long-lasting debt liquidation phase of the credit cycle is now taking place.**

**Somewhere between \$1T and \$2T of toxic waste debt is now being shoved down the throats of the American taxpayers. That’s the old news. It looks backward, and is a known fact. However, the real problem in going forward will be the lack of funds to expand the economy. Our economic machine will be lucky to merely roll over the debt of those still alive and kicking. Where is the money to come from to expand the economy? Our answer: nowhere!**

**Some raise concerns that the federal government and its bonds are damaged goods. We feel just the opposite—it may well be the only game in town. As market participants come to realize that we are in a recession (only 44% of market analysts do so presently, according to the Hulbert Digest), they will leave the stock market in droves. The next step will be the realization that we are going to be in a near-decade long, Japanese type recession, and still more stockowners will switch to government bonds. Other investors who presently have their money in real estate will follow suit—that is, if they can find a buyer. In other words, demand for government bonds will be greater than supply—even though supply is going to increase substantially.**



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