

Interim Market Update



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

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THE MORAL HAZARD IS REALIZED

The following is exactly where we believe we are concerning the economy and financial markets. The federal government has effectively taken control of the American financial industry. We have very little confidence in their ability to run anything, let alone a complicated and complex financial system. To date, all their efforts have done nothing to cure the ills that have built up over the last twenty-five years. In our mind, the straw that broke the back of our prosperous economy came in 1995, when the Federal Reserve propped up the economy in order to avoid a pending recession. Investors worldwide keyed off of that, believing the Federal Reserve was forever able to avoid a downturn in the economy. The truth is, in a capitalistic society, there will always be cycles of recession and prosperity. In a socialistic society, all they have is recession. Not allowing downturns to cleanse the system creates a moral hazard, which ultimately results in a major recession and/or depression. That is where we are today.

Our entire economy is burdened with excessive debt. The most burdened is the consumer. Unfortunately, in addition to his need to reduce consumption and increase savings, along came the financial crisis, which only made things worse. All of this culminated in the currently unfolding dreaded moral hazard, which was created and implemented by those in Washington. In effect, we have now asked the fox to guard the henhouse. No lasting good will come from this.

The recession is upon us, and we expect it to last at least one year, and maybe more. We fear that government action will only drag it out—making it less severe in depth, but much more lengthy in time. The financial markets take solace from time to time in government action, but even today common stocks and lesser quality bonds remain overvalued. Government bonds, on the other hand, are undervalued and remain the asset of choice.



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