

Interim Market Update



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

October 17, 2008

THE OCTOBER SURPRISE

The month of October was very difficult for us. Our BTTRX declined 6.9%. Never mind that other markets were down much more—for example, the stock market was down nearly 20%, and many other than government fixed income markets were down double digits. As this is being written, the 6.9% decline has been arrested as bond markets are nearly back to normal.

Much of the explanation in the fixed income markets had to do with investment bank difficulties. Most bonds are traded over the counter, i.e., no one common place. Dealers must position inventory by using their own capital. Well, guess what: 1) they were very low on capital and 2) scared to death to trust anyone on the other side of a trade. Thus, the spread between bid and ask widened—and in some cases, there was no bid. The last time we have ever seen a market this bad was in 1974. At that time, there was only one market, and that was Solomon Brothers—and even then, not everything one wanted to sell had a bid. This, of course, is the reason that the financial industry is being bailed out. If they go down, we might all go down. This is not the case for other private companies. The U.S. auto industry should not be bailed—that's money down the drain.

In addition, market makers were hit with a huge demand for government bonds. They sold them to the various buyers, but failed to deliver, as they did not have them in inventory. The SEC jumped right in and demanded that this failure be cleaned up immediately. As the market makers were unable to do so, the Treasury came to market with a special issue of 10-year notes, thus providing the securities to close the failure. We wonder who said that the large supply of government bonds to come to market was a big problem? Folks, it ain't—it is slowly but surely becoming the asset of choice!



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Please note below the first chart depicting the 30-year government bonds. We have been in the long end of the government bond market for nearly 18 years. We have had to hold our breath a time or two—and of course we made some trades during the time, which has added to our performance—but so far, so good!

You may recall that over the last several years, we have cautioned that one must be careful to not only stay away from stocks, but also lesser grade bonds. Please note the second chart, which shows that these bonds' relation to AAA securities are at all-time high yields since the Great Depression—in other words, large losses in price have taken place most everywhere, except government bonds.

Please keep in mind, this scenario will not go on forever—we will be there ready to change when such a change is needed.



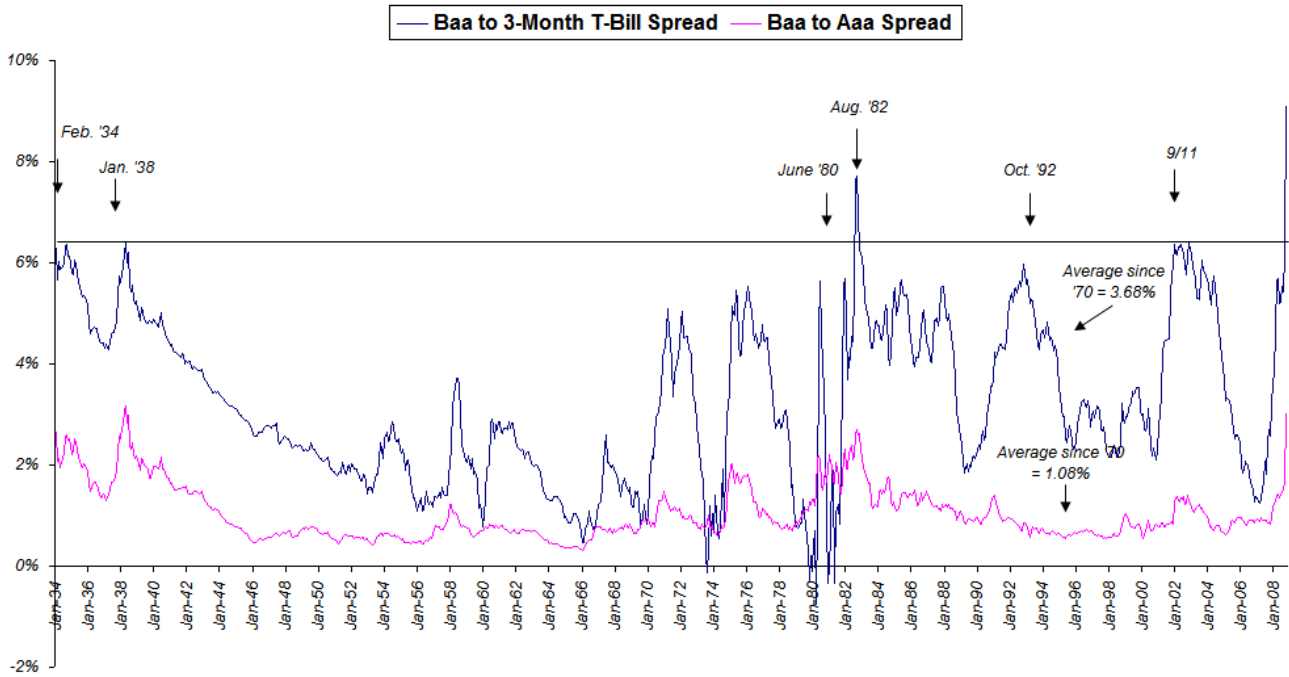
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Adapted from Mish's Global Economic Commentary Blog



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