

# Interim Market Update



Central Plains Advisors, Inc. • 200 W. Douglas Ave., Ste. 100 Wichita, KS 67202 • Economic Consulting & Investment Management

November 16, 2009

## IS ANYTHING REALLY NORMAL?

**There is a growing debate between at least two schools of thought concerning the financial and economic future. The principles in this are best represented by Pimco (Bill Gross et al.) and Fundamental Investors (Doug Noland). If one cares to delve further into their respective positions, visit [pimco.com](http://pimco.com) and [prudentbear.com](http://prudentbear.com). Pimco analysts are Keynesian in economic philosophy and Fundamental Investors' Doug Noland is Austrian. Obviously, if one has seen any of our writings, one might reasonably guess where we come down on this particular matter.**

**Pimco has come up with the term “new normal,” which represents a projection of a much lower rate of real GDP growth over the next three to five years or so, the primary reasons being more government regulation and high debt levels. They believe this will result in much lower rates of total return from investments, e.g. common stocks returning 5%, which is roughly one half of old normal returns since 1924. Under their scenario, things seem to calm down, which implies less volatility, maybe a throwback to the Norman Rockwell years.**

**On the other hand, Doug Noland sees a continual, unbalanced, Fed-driven bubble-here-and-bubble-there landscape. He points to the recent strong upward move in the stock market as well as the more modest increase in commodities. Doug Noland likes to call what he sees the “newest abnormal.” In further support of this view, there is also, in our opinion, a bubble being blown in less-than-top-quality corporate bonds. For the nine months ended 9/30/09, the net inflow to bond funds has been \$267.7 billion, as compared to \$90.8 billion for the same period last year. The**



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**previous largest yearly inflow in bonds was \$140.6 billion. Unfortunately, much of the inflow has been reaching for higher-yield junk bonds, which we believe is a major mistake.**

**The pivotal point to these two diverging scenarios rests with the answer to the following question: Has the serious disequilibrium that has come about due to central bank intervention in the marketplace been corrected? The answer is clearly no. We and the rest of the world continue to build debt, even though the private sector is deleveraging, in hopes of averting a perceived disaster. It won't cure the problem. It merely kicks the can forward to another actual crisis down the road. Keep in mind, this road is no longer very long.**

**Don't let the Wall Street-instigated euphoria influence your investment decisions. To be frank, we didn't believe Wall Street could rev up the speculative machine so soon after what we have been through. But it's not over 'til the fat lady sings and when she does we all need to be in the highest quality asset we can. We are in the newest abnormal, which will lead to the new normal, and it is imperative that we keep the faith in our investment position. Old habits die hard. Things will take longer, but our reward will be greater.**



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**Please note the above chart of the 30-Year Government Bond. This is Central Plains Advisors' long record. We don't believe the low in yields (high in price) has been seen yet. Patience will be rewarded.**



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