

Interim Market Update

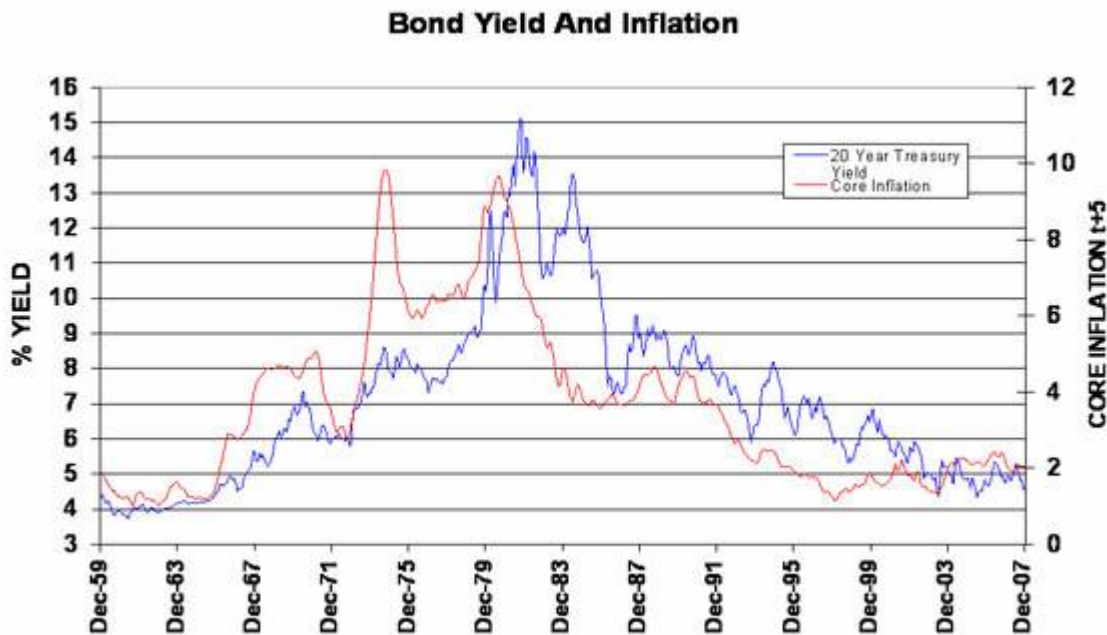


Central Plains Advisors, Inc. • 200 W. Douglas Ave., Ste. 100 Wichita, KS 67202 • Economic Consulting & Investment Management

March 29, 2010

MARKET SLOW TO LEARN

One of the most consistent positive correlations in the financial world is between inflation and long-term government bond yields. Many other factors cause changes (noise) from time to time, but, in the final analysis, inflation is without a doubt the primary determinate. Please note the chart below.



Adapted from FinancialSense.com

Today we seem to be experiencing the reverse of a lag that took place during the 1970s. Note that inflation during the '70s erupted well in advance of the upward move in yields. That, we believe, was due to the lack of inflation during the 1950s and first part of the '60s. The market was slow to understand that the “dogs of inflation” had been unleashed by improper monetary and fiscal



Central Plains Advisors, Inc.

Information contained in this commentary is based upon information obtained from sources both external and internal which we consider to be reliable, but the accuracy of the information and the recommendations contained herein cannot be guaranteed, nor do they constitute a solicitation for the purchase or sale of any securities mentioned herein. Information contained in this commentary may not be reproduced in any form without written permission from Central Plains Advisors, Inc.

Interim Market Update



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

policy on the part of the federal government. Today there is a lag in realizing that this time the “dogs of deflation” are being unleashed by – you guessed it – improper monetary and fiscal policy. Inflation is now running at about 1%. If one were to add 2.5% for an inflation hedge (approximately that which has been demanded historically) then 3.5% should now be the yield on the 30-year government bond rather than 4.7%. In addition, the inflation premium will diminish as it will become apparent that deflation will be here to stay for an extended period of time. That’s when a 2% interest rate could become a reality.

Many have asked – and rightly so – why we should own government bonds when the government we have is taking us down the path to financial turmoil. The answer is that the United States is the best of a bad lot. Governments over the entire world are destroying their financial worthiness. As they begin to fall – and they will – the rush to U.S. assets will begin and we will see it flow first into government securities. Why not common stocks? The government can and will take over their businesses if need be. How much of our economic system do they own now? Some say 30%. It can be 100%.

The “recovery” in the second half of 2009 from a real GDP standpoint was 2.2% for 3Q09 followed by 5.6% for 4Q09. The reduction in the decline of inventories has been the major contributor to the snap back in GDP. Personal consumption has been weak. As this is being written, it appears that 1Q10 will see an increase of approximately 2.5%. We believe the 5.6% of 4Q09 represents the high point in GDP growth for this brief “recovery.” Expect a return to negative GDP during the second half of 2010.

It would seem reasonable to think that stocks will soon move downward, while government bonds will finally move higher in price and lower in yield. In our opinion, the countermoves we have experienced since 1/1/09 are soon to disappear.



Central Plains Advisors, Inc.

Information contained in this commentary is based upon information obtained from sources both external and internal which we consider to be reliable, but the accuracy of the information and the recommendations contained herein cannot be guaranteed, nor do they constitute a solicitation for the purchase or sale of any securities mentioned herein. Information contained in this commentary may not be reproduced in any form without written permission from Central Plains Advisors, Inc.
