

Interim Market Update



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

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INVESTMENT OUTLOOK

As we mentioned in our last interim, it was and is our intention to keep everyone more closely informed about our investment strategy moving forward. It is in that context that we submit the following look toward 2012.

We have no doubt that the following will take place – we just don't know when. (1) Europe is in recession. (2) Their banking system is under intense pressure. (3) Their 60-year welfare state is breaking down and riots will become more acute and long lasting. Why is this important? History tells us that there is an 86% correlation between their economy and ours. Their economy is approximately the same size as ours, therefore will have an enormous effect on ours. Also keep in mind that China is in serious difficulty. Their real estate market is exploding and inflation is causing unrest among the underclass. There is a powder keg in all that mess which at some point will ignite.

The central banks and politicians in all these areas, as well as ours, are doing everything they can to keep various ships afloat. They will not be successful. On the other hand, every other day they and their PR firms will make it seem that things are just fine.

With all of the above in mind, we seem almost certain that (1) the U.S. is the world's last safe haven, (2) long government bond interest rates will probably stay within a range of 1.5%-3.5% which means our market risk is very small, and (3) if we are wrong and these rates move sharply higher, the Federal Reserve will buy them all – that's our ace in the hole.



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At this point in time we are quite satisfied to stay just where we are. Based on the current market, we are obtaining 3% on our money while we wait, which is extremely good based on the quality of the asset. Obviously, if we see that our expectations and forecasts become in serious doubt we will change our mind. When the facts change, we change.

A Final Thought

Milton Friedman said that inflation is always and only a monetary phenomenon (i.e. excess money supply). Please note the following chart. Inflation is not a problem under the present circumstances. Don't let the gold bugs sway your mind.

Exhibit 5: Real M3 growth



Source: Thomson Reuters Datastream, Credit Suisse

Adapted from pragcap.com



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