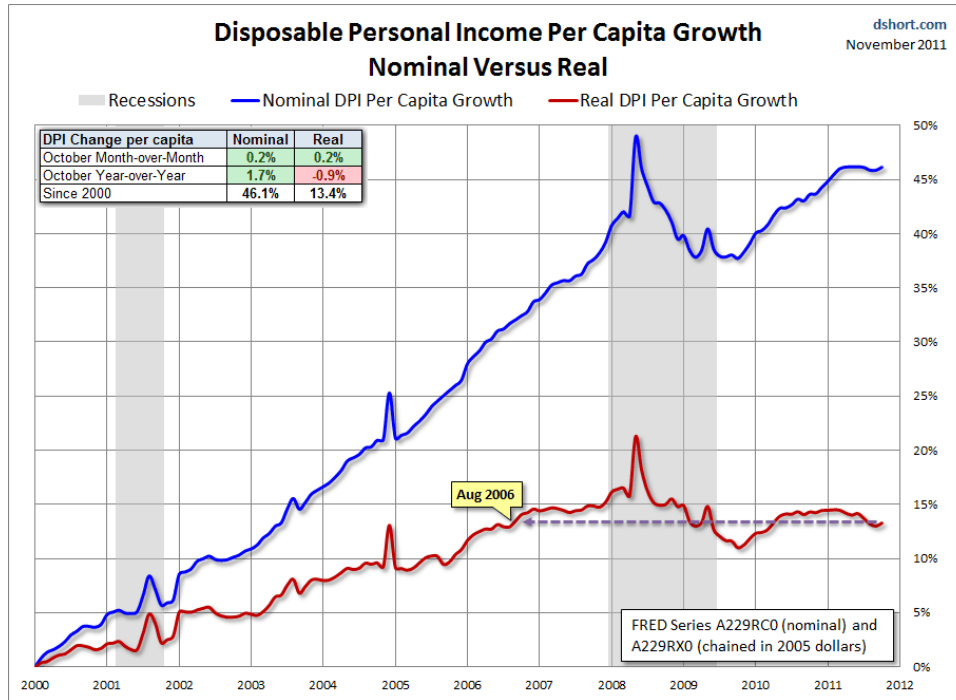


A MINSKY MOMENT IS ALMOST HERE

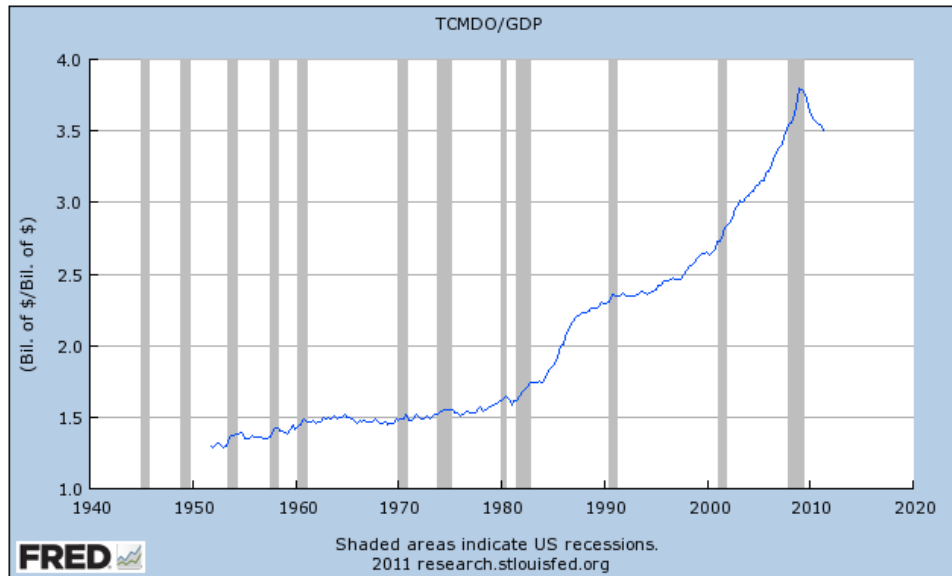
WEB BUZZ 2011.12.05

We in the U.S. have gone five years without any increase of disposable personal income calculated on a per capita basis. Please note the chart below.



Adapted from dshort.com

Much of the growth that took place during the years 2000 and 2008 came from debt accumulation that created economic growth and income. Since 2008 that has not been the case as deleveraging continues to occur on the part of the consumer. Again, please note the second chart which depicts this payback taking place.



Adapted from businessinsider.com

This chart shows total debt and since the federal government continues to add, the private sector - primarily the consumer - is the sector that is slowly but surely getting its financial house in order.

It seems as if no matter what one writes about it all comes back to debt and lack of income. Can you think of a worse combination to take place? When one comes to a point where one cannot refinance maturing debt (i.e. Europe) the payback must come from income, restructuring, and/or default. There is no other solution.

In what order do we expect groups to face these debt consequences? First will be those of us that the federal government will not bail out - that's all of us. Next will come what Hyman Minsky called Ponzi borrowers. The only way they can pay back their loan is through appreciation in the asset they own. The poster boy for this is MF Global that just declared bankruptcy. Unfortunately, in our opinion many more Wall Street firms may well be in the same boat. Third will be those that Minsky termed speculative loans - that is the loan where the borrower can service the interest cost through cash flow, but must

regularly roll over the debt. Last is hedged debt. This borrower can service both interest and principal through cash flow.

When will all of this take place? We don't know. We only know that it must, and when it does - Katie bar the door.