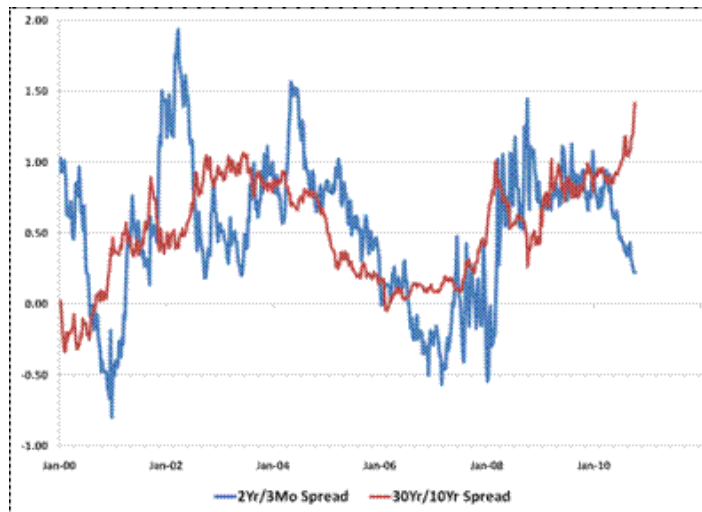


ANOTHER BUYING OPPORTUNITY WEB BUZZ 2010.10.25

The recent announcement that the Federal Reserve is contemplating what they term QE2 (Quantitative Easing 2) has caused the long end of the government bond yield curve to move upward some 50 basis points. We ask you - how many times are we investors going to get the opportunity to buy the highest quality asset in the world at extremely good total return prospects?

Of course, if implemented QE2 will have the Federal Reserve adding to its balance sheet by buying government securities. One would think that yields would go down with that prospect. After all, a new trillion dollar demand should be expected to drive prices up and yields down. But this has not happened due to the fear of inflation. Inflation is the death knell of bond yields. This, however, is a wrong-headed trading play and will soon be reversed and then some in our opinion. It happened when QE1 was announced and so it will again. There is no inflation in sight, but rather deflation. Investors seem to be slow learners. Please note the sharp increase in the red line in the graph below, which is the spread between the 10-year and the 30-year bond. Please take advantage of its recent all-time highs.



Adapted from Hussman Funds

Also note the following chart that measures the difference in yield between the 10-year note and the 10-year TIPS (Treasury Inflation-Protected Securities). This is a decent measure of inflation expectations. Again, inflation is being seen in places where it doesn't exist. Currently, core inflation is running around 1%. This plus 2.5% means that fair value is 3.5% for the 30-year. Just think what deflation will do with that percentage.



Adapted from Northern Trust