Back in the Holster, For Now

March 29, 2004

It is quite interesting to witness what seems to momentarily change the direction of markets. Just a week ago we were getting our ducks in a row to take some profits in our Bison Bond I program. The 30-year government bond was approaching 4.60%, which seemed to us close to a point where one could take some money off the table even though the fundamentals remain bullish for lower rates. We all know markets fluctuate most all the time; therefore, moving to the sidelines once in a while makes some sense. To complete the thought, everything was moving our way until Thursday last week when the Commerce Department announced that the final 4th quarter real GDP was, in fact, 4.1% just as was the 2nd revision a month ago. If you might recall, the preliminary number announced in late January was 4.0% - my what exciting news! It's comparable to a top chef boiling water. Maybe what we all need is a psychologist on our staff to judge what unimportant event is likely to move the market.

Also of major psychological importance will be the jobs number, which will be announced in just a few days for the month of March. Most all economists expect a big number (200,000 or so). This they have expected for over two years and one of these days they will be right. Please keep in mind that it takes almost that many jobs each month to hire the new entrants into the job market. In other words, somewhere around a 150,000 increase is treading water, not cutting into the previously employed but now unemployed. A "good recovery" will add 350,000 jobs or so each month.

We shall continue to look for a reasonable selling point – the fundamentals are much in our favor. As we have mentioned many times before, we do expect interest rates to move upward, but on a sustainable basis only for less than top quality bonds. Government bonds will become a safe haven with interest rates moving lower.

We appear to be having a "mini" correction just as we did in June/July of last year. It's the "carry trade" again. At any hint that someone else is going to sell, those using borrowed money will sell in mass. This will pass and become a non-event in the grand scheme of things. It's the on going battle between investors (us) and speculators (Wall Street firms). We always win if we have the resolve to stay hitched.