

Be Stalwart: The Future is Ours

April 10, 2006

Let's get right to the point. This is that moment in time when we earn our fee and you decide if you want to be a long term investor, or just another behavior driven person that is lucky to obtain even 50% of the stock and bond indices. As you know, all studies over the last 25 to 30 years have shown that the average investor makes less than the above-mentioned 50%.

First, lets review the assets you own. Government bonds are the highest quality assets in the world. Not only that, but they also have the most liquid market there is anywhere. High quality and high liquidity, just what the doctor ordered. From this point to maturity, one will obtain well over 5% yearly if nothing is done but holding on to the asset. Our management has demonstrated over the last 16 years, that a 12.3% annual return was achieved, even after deducting our highest fee. And, yes we have suffered through several low periods to obtain those double-digit returns.

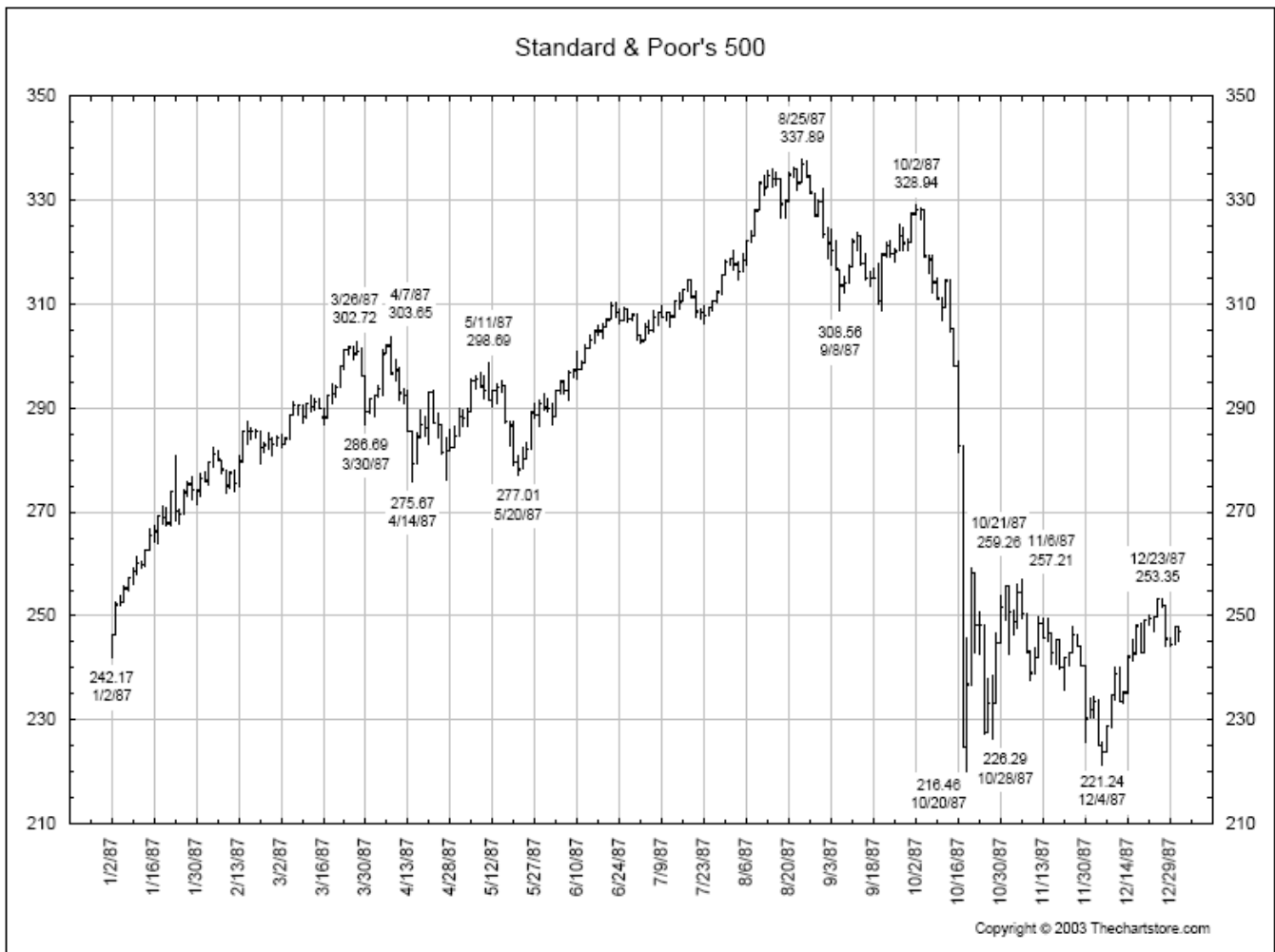
Now you might ask, why didn't we see this coming? Isn't that what we are paying you for? The answer is, as indicated above, we have seen some of them coming but not all. For example, we were in cash during 1994, which was the worst bond market in 70 years. We know the economic fundamentals rule in the final analysis, but do not understand, at least timing wise, the irrational behavior such as we saw in the stock market of the late 1990's. One of our most important jobs, during unforeseen periods, is to keep you hitched. It's the difference between well above average and well below average returns.

The drawback to the high quality, high liquidity aspects of government bonds are that from time-to-time speculators that use leverage will hammer this market due to the ease of sale when their other investments go south. This is a classic instance of selling your good assets in order to pay for your bad. A real time example of this is the recent sale by General Motors of their GMAC financing company. They are selling their most profitable asset to offset their loses in the manufacturing plants.

We suspect another 1987 may be on the way. The economic fundamentals are weak due to the high debt levels of the consumer, which is 70% of the GDP. Retail sales in February and March were soft. Capital Spending has held up rather well, but is a lagging indicator. Keep in mind, \$800 Billion in tax cuts are missing, and \$600 Billion cash extracted from the increase in housing prices are gone. Yes, employment has improved, but it too is a lagging indicator.

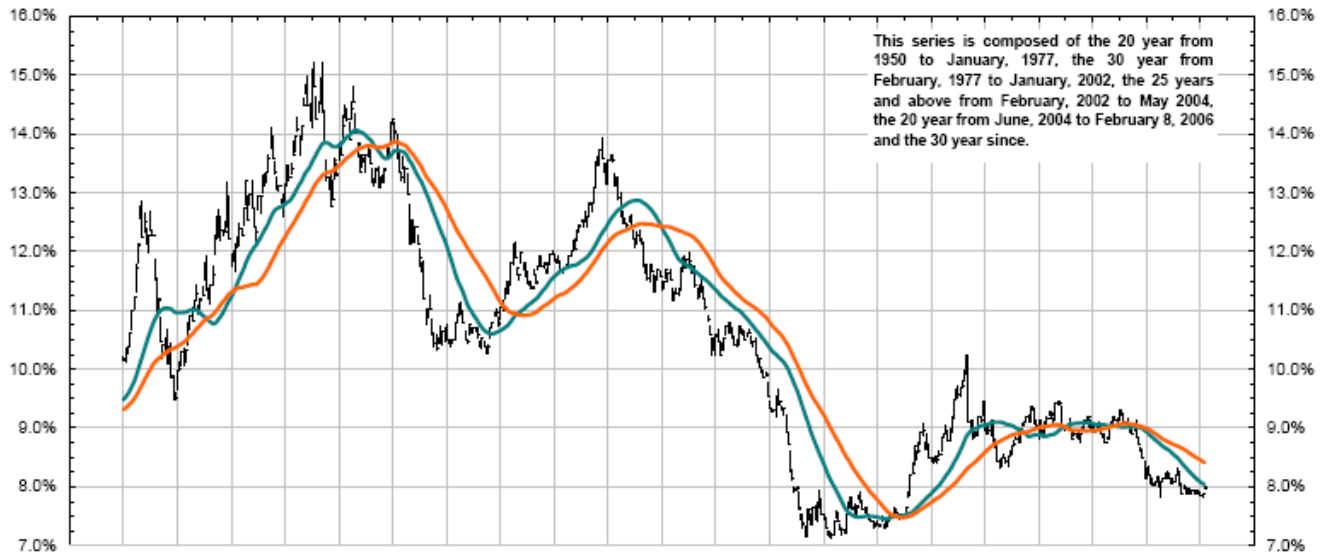
Our opinion is that either the street has misread the economy or is talking it up in order to make bag holders out of the rest of us. Below you will find two charts which detail the stock and government bond market of that year. Note, the month of October in particular. We believe last Friday, April 7th, was probably the beginning of this sea change.

As final note, please call us with your concerns. Do not let those that have been wrong for 16 years, but right for the last 4 months, rule the day.

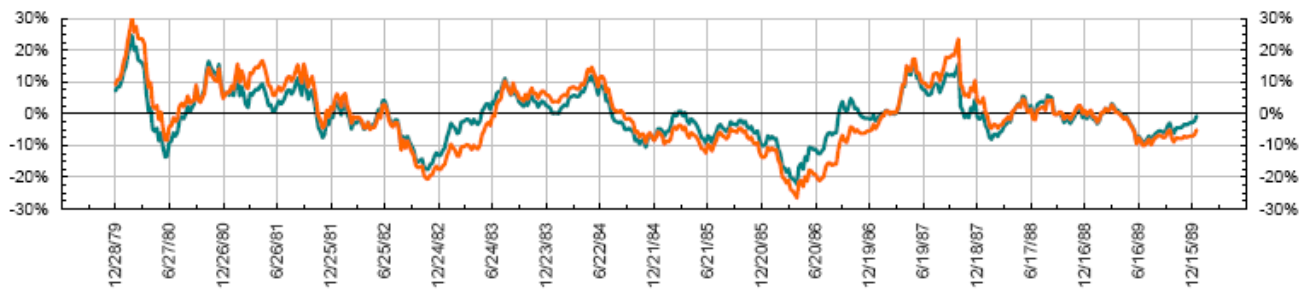


Note: October 1987

Long-term U.S. Treasury constant maturity with 30 & 50 week moving averages



% Above or Below 30 & 50 week moving averages



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Yields up, Prices down
Note: Two Middle Quarter of 1987