

How Did Anyone Ever Get The Idea . . .

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Having spent 23 years working for a bank, the following quote from www.thedailyreckoning.com is most amusing to us. Where did anyone ever get the idea that bankers are good at predicting interest rates?

"...It seems that the banks are actively pushing Adjustable Rate Mortgages, and more than 25% of home buyers are opting for this type of mortgage. Suckers! What makes it so interesting is that this is at the same time as interest rates are at the bottom of the range of mortgage rates for the last few thousand years, and therefore there is almost no chance that rates will do anything other than go up. The banks clearly see the writing on the wall, and borrowers don't. And then we sit back in our chairs and wonder why the rest of the world has such a low opinion of us..."

In our opinion, the suckers are those who keep talking about interest rates being at lows not seen in the "last few thousand years." This may be true as it concerns short-term rates, but government bond long-term rates are nowhere close to historical lows of the past and that also goes for the future.

The ascribing of market intelligence to bankers makes us think of the "good old days" of the mid to late 1970's. Day after day, meeting after meeting, we attempted to impress on the executive committee of Kansas's largest bank that interest rates were going through the roof (the prime rate at that time was 6 ½%). We mentioned 14% as a probable level, maybe more. 21% was where it landed. One of the senior loan officers said that couldn't be true as he read in *Time* magazine that rates were at the very top. Later on, after 1981, when all the banks went to variable rates expecting even higher rates to come, we told everyone we could that they should argue with the bankers, but finally agree to variable rates. Maybe even shed a tear, then laugh your way out of the bank. 1981 was the top of the 30-year bear market in interest rates. They have been going down ever since. We believe in the old saying: "interest rates are too important to leave to bankers."

What's the problem? Human behavior! It's fighting the last war again. It doesn't work in economics, and it's economic fundamentals that eventually determine the level of all interest rates.