

IS THE BELL NOW TOLLING?

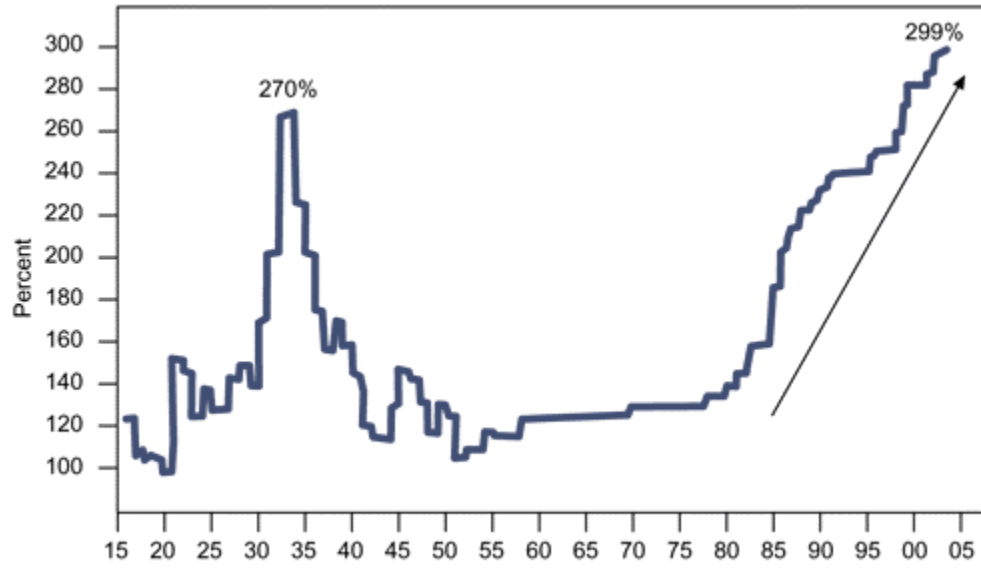
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Economic releases since the publishing of the government's first quarter real GDP number of 1.3% indicate that the second revision due later this month will cut this number by 50%. As 1% real growth is considered a "growth" recession, our long-predicted slowdown has arrived—a year late or so. A quick peek at the second quarter real GDP number indicates that it may be very close to 0%.

Two questions come to mind as we attempt to understand just what is taking place concerning the economy and the financial markets; number one: why has it taken so long for the economy to significantly slow? And number two: why don't the financial markets reflect this slowdown in a meaningful way? At the root of both of the answers is the enormous accumulation of debt. It was first the government, then the consumer, and now private business. Excess liquidity created through debt of all kinds has masked the weakness taking place in this—as well as other—worldwide economies. We collectively have built an economy on a foundation of sand, but so long as it continues to grow, no one cares.

It seems to us that at some point in the not-too-distant future, the market will come to understand that the real value of financial assets must be based upon the wellbeing of the underlying income generating physical and intellectual assets. Today those values represent something other than that. They represent a belief in an omnipotent Federal Reserve—which is the creator of the problem we face today, just as it was in the infamous 1920's. In Ronald Reagan-like terms, the Federal Reserve is not the solution, it's the problem. Although we can't hear it, we believe the bell is tolling.

Total Credit Market Debt (all sectors) as % of U.S. GDP



Source: Gabelli

Taken from www.financialsense.com