

IT AIN'T GETTIN' ANY BETTER

WEB BUZZ 2009.01.12

Wall Street has yet to get the message that the current recession is not the garden-variety kind of the past. We are now paying the price for inappropriate public policy since World War I. It transcends parties. It has its origins in the monetary policy of the 1920's and the fiscal policy of the great depression of the 1930's. The fiscal mistakes were made by an engineer (Hoover) and an aristocrat (Roosevelt). It became the norm for such policy to this very time. As we have said many times the Austrian economic model has always been right and the Keynesian wrong – yet Keynesian policies have always prevailed – it truly is one of the mysteries of our time.

The consumer is dead in the water and will only come back when his savings have been restored. It is only out of savings that we can have real growth. Debt has to be liquidated. Public policy is just some more of the same monetary wise and fiscal wise. How can you cure the patient by creating more debt? You may soften the blow but you will not cure the patient. It would be our guess that most of the government money given back will be saved. That will be helpful in the long term – that's the good news. The bad news is it will have to be paid back by those 50% of taxpayers who are the ones who fund businesses that create jobs, thereby creating growth.

Bonds have been mixed of late. Corporate bonds have done some better, while governments have been correcting. Junk bonds remain extremely weak. We remain in cash awaiting reentry into the long government market in our BBI. A range of 2% - 4% seems probable for the 30-year government bond.

Deflation remains in our future. Why buy today what will cost less tomorrow? Inflation may be in our long-term future if the Fed does not find a way out of all the money creation now taking place. It is way too early to make that judgment now.

The following numbers may be of interest concerning the returns on common stocks. This is what buy and hold gets you in the way of returns on common stocks – Wall Streets favorite asset.

Periods Ended 12/31/08
S&P 500

| <u>1 year</u> | <u>3 years</u> | <u>5 years</u> | <u>10 years</u> |
|---------------|----------------|----------------|-----------------|
| -37.0% | -8.3% | -2.2% | -1.4% |

These are annualized total return percentages.