“IT AIN’T OVER ’TIL IT’S OVER” – YOGI BERRA
WEB BUZZ 2009.04.27

It is our position that the financial markets have yet to factor in the very possible worst case scenario for the U.S. economy. And, of course, it is the world economy as well that is suffering from an economic model which is broken and will probably not survive.

Please note the following tables which were taken from a piece done by Bud Conrad, Chief Economist for Casey Research. As Conrad notes, the tables are his summary of a study done by Reinhart and Rogoff called “The Aftermath of Financial Crises.”

“What Happened in Serious Crises?”			
	U.S.	Other Crises	
	So Far	Average	Worst
Housing	-25.0%	-35.5%	-54%
Stocks	-51.1%	-55.9%	-90%
Unemployment increase in % from bottom	3.2%	7.0%	23%
Real per capita GDP	-1.5%	-9.3%	-28%
Cum % increase in public debt (Debt)	30.0%	86.0%	175%

Crisis by the Numbers	Measured at		What if Like Other Crises	
	Peak or Bottom	Today	Average	Worst
Case-Shiller House Price	226	162	146	104
S&P 500	1565	766	690	157
Unemployment Rate	4.4%	7.6%	11%	27%
Per capita real GDP	$38,609	$38,029	$35,018	$27,798
Public Debt $B	$5,000	$6,500	$9,300	$13,750

Time to Bottom from Peak					
				What If Like Other	
	Years from Peak	**Average**	**Worst**	**Average**	**Worst**
Housing	**2.7**	**6.0**	**16**	**2012**	**2022**
Stocks	**1.3**	**3.4**	**5**	**2011**	**2012**
Unemployment	**2.0**	**4.8**	**11**	**2012**	**2018**
Real per capita GDP	**1.3**	**1.9**	**4**	**2009**	**2011**
Public debt (Debt)	**1.3**	**3.0**	**3**	**2010**	**2010**

The study would seem to indicate that our troubles are in no way close to being over in respect to both severity and time. This is true even if the current situation turns out to be average in severity, but we believe this recession/depression will end up being closer to the worst category than to average.

At present in the financial markets we are seeing counter trends–a bear market rally in stocks and a bull market correction in government bonds. We expect reversals in of these counter trends before long. The long government bond yield went to 2.50% in December of 2008. That move was based solely upon fear of the unknown. The next move down, in our opinion, will go even lower and it will be based upon the realization that our worst fears have not yet been realized. In other words, the new lower yield will reflect just how bad things really are. Remember that Japan's long bond went to 1% and today remains at 1.50% and its debt to GDP ratio is 160%.