

IT'S ALL ABOUT DEBT

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It seems as if the only thing we talk or write about anymore is debt. The reason we do so is because hardly anybody on Wall Street pays attention to how important it has been to our prior growth and will be to our future growth, as well as, of course, to the future of our financial markets. Let us put it very plainly - the entire global economy is burdened with extremely high levels of debt. It has gotten that way in no small measure because of the mainstream economic models which said, "You know what? Debt doesn't matter. Why? Spending is transferred from one party to another; however there is no change in demand." How absolutely absurd can one be? We first become concerned about increasing debt back in the late 1980s. We asked our old friend Wayne Angell, former Federal Reserve member and economist, about the seriousness of what we then thought were high debt levels. His answer was - it's no problem, the lender won't lend unless he is certain the loan will be paid back. Really? What Wayne and others may have overestimated is the quality of those who make the lending decision. Without doubt, those who dreamed up the sub-prime slime, as Gary Shilling calls it, left a lot to be desired when it comes to brains.

Please note the following chart entitled, "A Recent History of Debt Expansion, Bubble Formation, and Bubble Deflation, as narrated by the S&P 500."

A recent history of Debt Expansion, Bubble Formation, and Bubble Deflation, as narrated by the S&P500



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As it applies to the bond market, think of the upward movement as rising interest rates and the downward movement as lowering rates. The chart's right hand projection is inflation and higher interest rates. That's where it goes wrong - it will be lower rates and lower inflation.