

It's Not Over Till It's Over

June 27, 2005

Have you noticed how many are now talking about low rates and that maybe they just possibly might be around for awhile. As you know we have been beating the table since at least 1995 that much lower rates were in the offing. We mention this, not to gloat (we do however have a grin that goes from ear to ear) but rather to initiate the process of ascertaining if the “game” is over. As you know when things hit the headlines, the cat is out of the bag and one needs to possibly look else where for the next major move – what direction and which asset.

Having said that we continue to believe that there is still much more to go as concerns lower interest rates on long term government bonds. Headlines are worrisome, but so far we think now is only the beginning of the realization that we have entered a low return environment, which could last for several more years. The Wall Street hucksters have yet to buy into the program. When they do it will for sure indicate that the end of the game is in sight.

A recent New York Times article by Edmund Andrews entitled “Low Rates Could Be Around for Long Term” examined what most everyone thought was impossible – lower long term rates as short rates were ratcheted upward by the Federal Reserve. Here are his as well as several expert’s thoughts for the possible reasons.

1. People now believe this could be the new reality. A fundamental change has taken place.
2. Excess savings overseas has nowhere else to go with the money.
3. An inflation premium is no longer needed
4. Over capacity in Asia keeps prices down.
5. An economic slow down is in the offing.

As you know from our newsletters for low these many years 4 and 5 above are the reasons. There is no shortage of anything except brains. The major worry in a year or two will be lack of demand. The two of these together could be a serious problem. Some will say oil is a shortage, which may be true over the short term, but long term, no. Oil prices along with housing are the next bubbles to pop.