

## LET'S DO THE TWIST

### WEB BUZZ 2011.09.19

From where we sit, the Fed just has no tools that will benefit the U.S. economy in a meaningful way. Frankly, they are out of bullets. Also, from a financial standpoint, the old tax and spend policy plus the huge increase in consumer debt that are largely responsible for our troubles today have hit the brick wall - the law of diminishing returns is in full effect. Only the reduction in debt either by default, reorganization, or payback out of income will right the ship of state. That, of course, means we are destined to be in a long period of slow to no growth (how many times have we said that over the last ten years or so?).

Let's say the above is a given, then let's take this period to get our financial house in order as it pertains to the government bond market. If we were the policy makers at the Fed here is what we would do:

1. Put in place "operation twist," which is selling short-term treasuries and in its place buying long-term treasuries. This should not drive the inflationists into hard assets as no new liquidity is added to the marketplace. What it should do is lower the 30-year government bond to around 2% - 2.5%.
2. At a later date, say the first of the year, have the treasury announce that for the first time they will issue 50-year government bonds - say the coupon would be something like 3%. This would lock in a rate that would be amenable for carrying the debt. Our interest expense would become more known and mitigate what we all know will be higher rates later on.
3. Maybe down the line the treasury should sell 100-year bonds at say 4%. We all know that one can obtain very little interest on quality fixed-income investments now. Another five years of 0% interest rates might make these very attractive.

4. The final step would be to inflate away the principal after deflation has run its course. Bing, bang, boom we have solved our treasury debt problem.

#### An After Thought

It might be that if all of the above would not get our government out of its self-inflicted mess, they could confiscate private pension funds and in its place swap out low coupon long-term securities and pay down debt with their newfound money.

Don't laugh at this. As terrible as it is other countries have done it, and a year or so ago there were hearings in our congress on this very matter. What is the old saying, "We're from the government and we're here to help you!"

#### Performance Update

For those of you who have been with us since 1/1/10 and have made no additions or withdrawals in your Bison Bond I account, your numbers before fees are up approximately 40%.