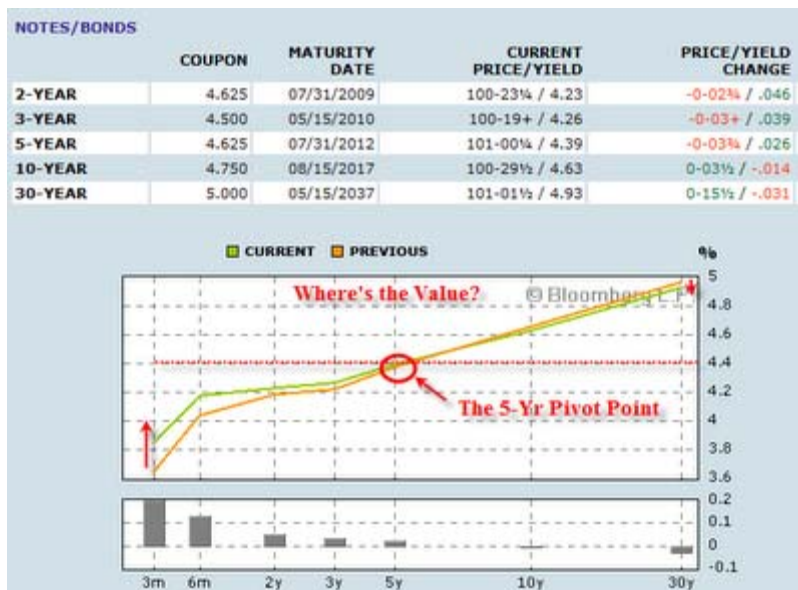


MISH IS RIGHT AGAIN 09.10.2007

Austrian economist Michael Shedlock made an extremely interesting observation the other day concerning *Where's the Value?* Please note the following chart and his comments thereafter.

Yield Curve as of 2007-08-23



What's interesting about the above chart is we are seeing a rally in yields at the short end of the curve, and a decline in yields at the long end of the curve. The pivot point is easy to see as depicted by the dotted line at 4.4%

Is there any value at the short end of the curve? I think not. On Monday in a [Flight to Safety](#) I noted "The yield on the one-month Treasury bill fell 160 basis points to 1.34 per cent in early trading. The yield on three-month Treasury bills tumbled to 2.51 per cent, 123 basis points below Friday's close – a sharper fall than during the October 1987 stock market crash."

There is simply no value at yields of 1.4%.

With the Fed Funds rate at 5.25% inquiring minds are asking "Is there any value anywhere?" Well the answer depends on where we are headed. If for example the curve flattens and the pivot point stays where it is, then there is indeed value on the right side of the pivot point. The entire curve could also shift lower in which case there is also value on the right side of the pivot point.

Only if there is a bond market revolt when Bernanke cuts rates (and he will) is there no

value on the right side of the pivot point. So now the question becomes "Value" vs. "Safety". Safety (but not value) increases left of the pivot point. Relative value (but not safety) increases to the right of the pivot point.

This seems to be a strange dichotomy. Relative value appears to be where the most risk is. When is the last time we have seen that?

Mike Shedlock / Mish

<http://globaleconomicanalysis.blogspot.com/>

Posted by Michael Shedlock at 10:14 AM [Where's the Value?](#)

Our Two Cents

Keep in mind that when Mish says relative value, but not safety, increases to the right of the pivot point, he is not talking about credit risk, but rather market risk. We must assume market risk in order to obtain a good total return.

All government securities are credit risk free, thus our contention is that they are the highest quality asset in the world. What Mish is saying is that today, based on risk reward, the long end of the market is where to find value. That's exactly where we are, friends. Risk taken over the last several years by most investors has not been rewarded, unless you consider losses rewarding. Where we are has been flat for some time now, but our reward is clearly underway.