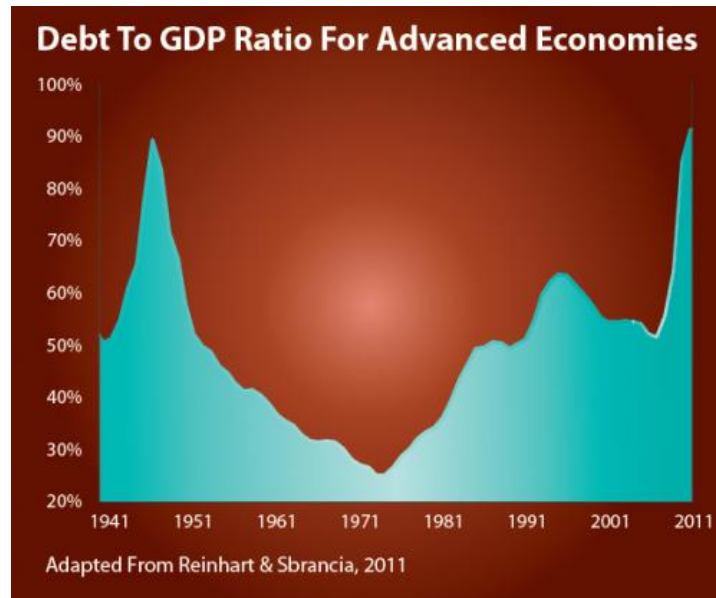


**OUR EXPECTATIONS RESTATED**  
**(LOOK TO THE HISTORY OF 1929-51 AS A GUIDE)**  
**WEB BUZZ 2011.08.22**

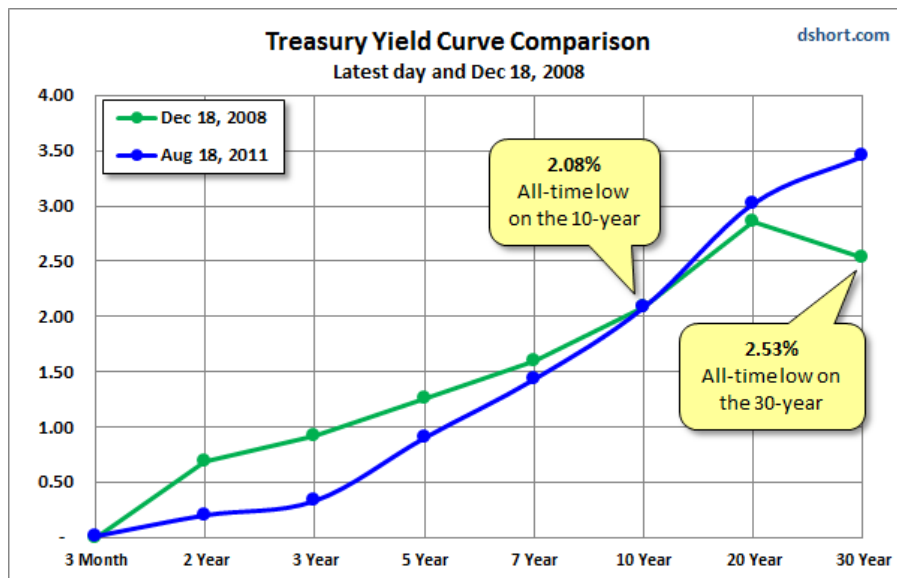
1. There will be a long period (maybe ten years) of slow to no growth which will include several recessions. It is Japan all over again.
2. More likely than not we will suffer debt deflation in spite of the Fed's attempt to create inflation. Down the line, of course, we will have inflation as that is one of the proven ways to liquidate debt; however, that is years and years away.
3. The Fed's recent 0% short-term interest rate cap for the next two years signals that they now understand points 1 & 2 above.
4. The financial markets are still not buying into this outlook, but times they are a-changin'.
5. At some point in the future we expect to have caps on long-term government rates in the area of 2% or so.
6. When push comes to shove, the Fed will sacrifice the stock market to make sure the government bond market remains viable.
7. Public policy, both fiscal and monetary, will place controls on the economy such as capital controls, other interest rate caps, and possibly wage and price guidelines.
8. On a risk adjusted basis the only asset that will deliver capital gains (income) will be long-term government bonds.
9. There will be a new low in the stock market which will allow a buy of a lifetime, just as government bonds were in 1981.
10. A new round of government deregulation of the economy and financial markets will once again occur, just as in the period after the great depression.

All of this will be in response to the “Age of Deleveraging” as Gary Shilling calls it in his new book of the same name. Nothing, of course, is etched in stone, but the odds of this scenario happening seems quite likely to us.



Adapted from financialsense.com

### A Market Note



Adapted from advisorperspectives.com

Please note the spread between the 10-year and the 30-year August 18, 2011 vs. December 18, 2008. The 30-year has some catching up to do in relation to the 10-year. As this is being written, the 30-year is 3.42% and the 10-year is 2.09%. That is a spread of 1.33% - a normal spread (if there is such a thing) is 0.80%.

We are only at the very beginning of the economic bad news. We expect the gap to close at least to 1.00%, which would put the 30-year at 3.09% - down another 0.33%, which is huge, plus price change of 7% to the good at these levels.

We also know that all the pigs end up in the slaughter house, so we are watching closely.