

Our Finger is On The Trigger

March 15, 2004

As you are all aware, we spend most of our time analyzing the economy looking for fundamental clues as to where we believe interest rates are going. In many cases it seems to take an inordinate amount of time before the fundamentals become obvious to other market participants. For us to be successful we, from time to time, have to be a part of the market consensus. The key to superior performance is finding the proper point within our zone of consensus to take profits. It is without doubt the most difficult decision we face on your behalf.

Let's look at a couple of prior examples and compare them to where we are today. Back in 1999, the worst year in Central Plains Advisors' history as well as our personal history, was a unique set of circumstances. We have analyzed over and over again what caused us to not see this worst of all years. The answer comes down to the simple fact that this was the "blow off" year of the largest stock market bubble in history. Fundamentals didn't count, valuations didn't matter, even technical factors were of little help – the mantra was "buy tech stocks" even if you didn't know what they did, and one of the main sources of funds came from selling bonds. In simple terms the stock markets exploded on the upside and investors piled in as fast as they could with much of their buying power coming from the sale of "stodgy old bonds." This, in our opinion, was a once in a lifetime occurrence. It came out of left field and fortunately we made back most of the paper loss in the first quarter of 2000.

Last year also was a challenge as well, at least for quality bonds. We did make two moves, which allowed us to make a positive year of what otherwise would have been negative. We sold at excellent times, but re-entered the market too soon. During both 1999 and 2003 the fundamentals remained positive and later market action has vindicated this position.

How about now? We have had an excellent move so far this year, and we are looking for a place to take some profits. The fundamentals are much in our favor, but we realize the undoing of the speculative "carry trade," which is done on borrowed money, can take away those profits in a heartbeat. We want you to know we are watching this market like a hawk. Some technical work we have seen seems to indicate another 50 basis points (.5%) lower should be a minimum expectation. We will keep you informed.

10-Year T-Note Yield (\$TNX)

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\$TNX Daily 10-Mar-2004 O:37.27 H:37.51 L:37.01 C:37.35 Chg:+0.16
MA(50) 40.77
MA(200) 40.86

