

Take Your Pick

May 3, 2004

In our Web Buzz of 4/26/04 we mentioned there are many ways the economic and financial bubbles that have occurred since 1995 may be deflated. We absolutely have no doubt that this will occur, but as stated many times before, we don't know how or when. The following are nine such triggers recently mentioned by a piece prepared for Financial Sense by several well known investment practitioners. In particular order they are as follows:

1. **Sudden Interest Rate Rise** – subject of Web Buzz 4/26/04
2. **Real Estate Bust** – Low interest rates have force fed this area, creating a bubble
3. **Debt Saturation** – Consumers have little money to spend due to payments
4. **Tighter Credit Standards** – Lenders become worried about bad loans
5. **Supply Shock** – A shortage, contrived or otherwise, which acts as a tax increase because of its “must buy” status.
6. **Derivative Meltdown** – There are at least \$150T in derivatives slouching around out there that are interest rate sensitive. It's a prime speculative vehicle and is fraught with default possibilities.
7. **Contingent Debt** – In the fine print of many loan agreements are collateral value provisions. If broken on the downside they become callable (Enron problem).
8. **Terrorism Incident** – Enough said
9. **Asset market Correction** – This might occur before any of the above possibilities. This would signal problems to come.

Of the above, number 3 seems to us the most likely, but on the other hand, we have thought this for over three years. But keep in mind the rate of growth in retail sales over the last 3 years has been half of what it was in the previous two. How about tomorrow? Note this chart from Bronson Capital Markets Research.

