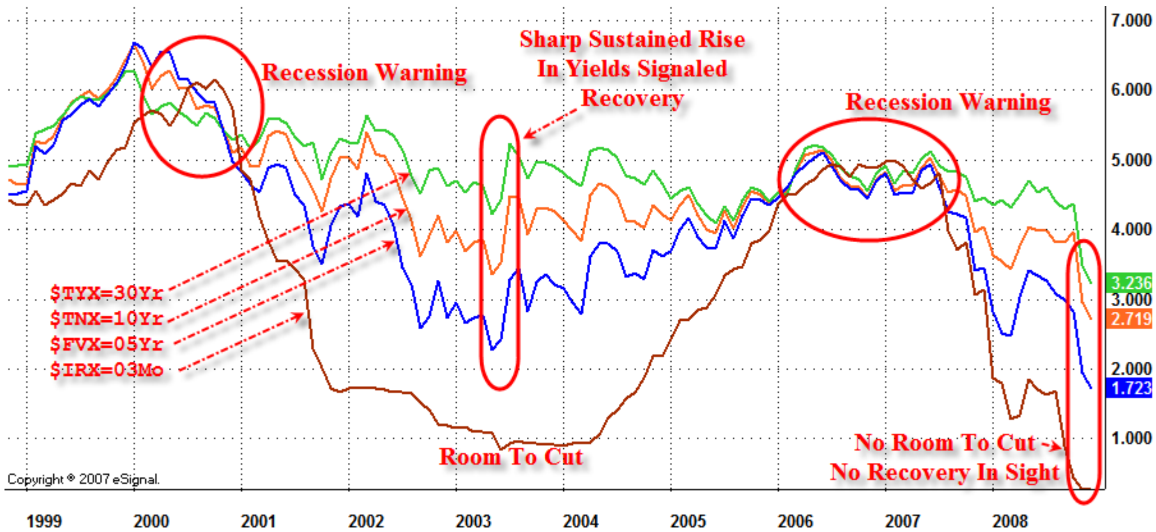
THE AUSTRIANS ARE RIGHT AGAIN

WEB BUZZ 2008.12.08



Adapted from Mish's Global Economic Commentary

The above graph reveals the market movements of a representative group of U.S. Treasury securities over the last ten years. As you can see, it has been a roller coaster ride. As this is being written, 90-day Treasury bills are 0% and 30-year bonds are 3.24%.

Do you remember most so-called market experts saying to stay away from long maturities? Why would anyone buy long-term bonds that yield only 4 or 5% during most of the 2000s? After all, common stocks averaged nearly 20% during the 1990s, and 10% over the last 80 years. To boot, inflation was always just around the corner, and we all know inflation kills long maturities. Even those whom exclusively manage only bonds, Bill Gross of Pimco being the prime example, wanted nothing to do with long-maturity bonds. One was not being paid to take the risk was the most quoted answer.

As you know, we have been committed to long government bonds throughout this entire period. The reason we have been so invested was due to our use of Austrian

economics to analyze the economy. Most all others, in particular Pimco, follow the Keynesian economic model. The Austrian model has always been right at turning points, and Keynesian wrong. Let's hear it for Von Mises and Hayek!