

The Consensus Doesn't Believe It But We Are Actually in the Cat Bird Seat

December 8, 2003

Most of the questions we get these days have to do with the dollar and the most universal opinion that the foreigners will soon unload as many dollar assets as they can. We understand this fear, but let's be realistic for a moment. Please consider the following:

1. If a foreign company wants to sell us goods (and they do) they must accept dollars in payment. They have no choice.
2. Is the dollar a better bet for the future than the Euro, the British Pound, the Swiss Frank, etc.? We believe so, even with all our faults on a relative basis we are more politically stable, more free enterprise oriented, have much larger financial markets, and are by far the world's largest consumer of goods and services.
3. The *coup d'etats* remains that we are by far the strongest military force in the world and that has a lot of appeal to many who are unable to fend for themselves in times of crisis.
4. Isn't it smart to buy low and sell high? With the dollar down some 25% or so, is it not a better buy than it was 18 months ago? Will it go down forever? Isn't the extreme bearishness on the dollar a sign of a possible low?

But let's say as we move forward thinking the worst is yet to come concerning dollar weakness. This is what we would expect:

1. Devaluation on the part of our trading partners.
2. Possible exchange and/or capital controls.
3. Increasing tariffs to protect "home" industries.

The end result of these and other roadblocks to international trade will be lower economic activity and most probably a worldwide recession of serious proportions.

If that occurs, guess what? The flight to quality will witness

1. Lower stock prices – purchase of US Government Bonds
2. Flight from foreign currencies – purchase of US Government Bonds
3. Flight from commodities – purchase of US Government Bonds
4. Junk bond crash – purchase of US Government Bonds
5. Housing bubble pricked – purchase of US Government Bonds

And guess what? The investors won't care an iota what the yield might be – they want safety!

My friends we are in the cat bird seat. We own the asset of final resort (precious metals would be another, however, our risk is less and markets larger although there is certainly a place for gold and silver).

Again the financial markets today are seriously overvaluing stocks, commodities, and bonds other than U.S. Treasuries. We are needing to have patience, but holding the world's most secure asset and obtaining 5% in an environment of income drought is absolutely wonderful.