

THE MARKETS ARE SCHIZO

WEB BUZZ 2011.10.03

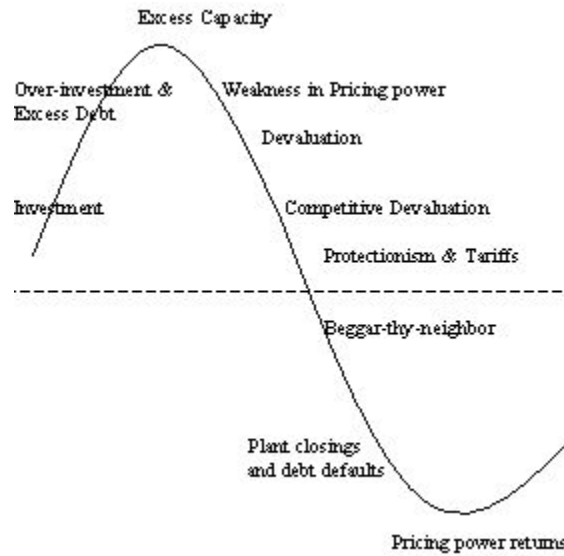
The financial markets simply do not know what to believe. Two weeks ago Europe was going down the tubes. Last week they have been saved. These are great markets for trade if one can time short-term markets. Problem is, of course, very few can. Trading is not based on fundamentals, but rather on hopes and fears. We, as you know, believe in the fundamentals and that is what has placed us in the upper 10% of all domestic fixed-income managers since 1991.

Here are the fundamentals as we see it:

1. The U.S. is in recession now or shortly will be.
2. The consumer is nowhere close to having his debts paid off.
3. The small business owner is dead in the water.
4. Big business (mostly too big to fail banks and GE) are propped up by the federal government. We don't know about GE, but the big banks are no better off than they were three years ago.
5. Europe is where the U.S. was in late 2007 and getting worse. Bank failures are in their future.
6. China for the first time is showing real strains in their economy. There is a Japan-like real estate bubble over there which will blow up, but we don't know when.

Now if all of the above is not enough, we just don't see any meaningful recovery in sight. Maybe exports to emerging economies have some life along with the bread basket states and their superb position in food stuffs. Some are saying farm land may be the next growth area - we tend to agree.

Our long economic slow to no growth scenario is well on track. In its place, however, we may have a year-long or longer recession in our immediate future. Here is our favorite chart again.



Adapted from prudentinvestor.com