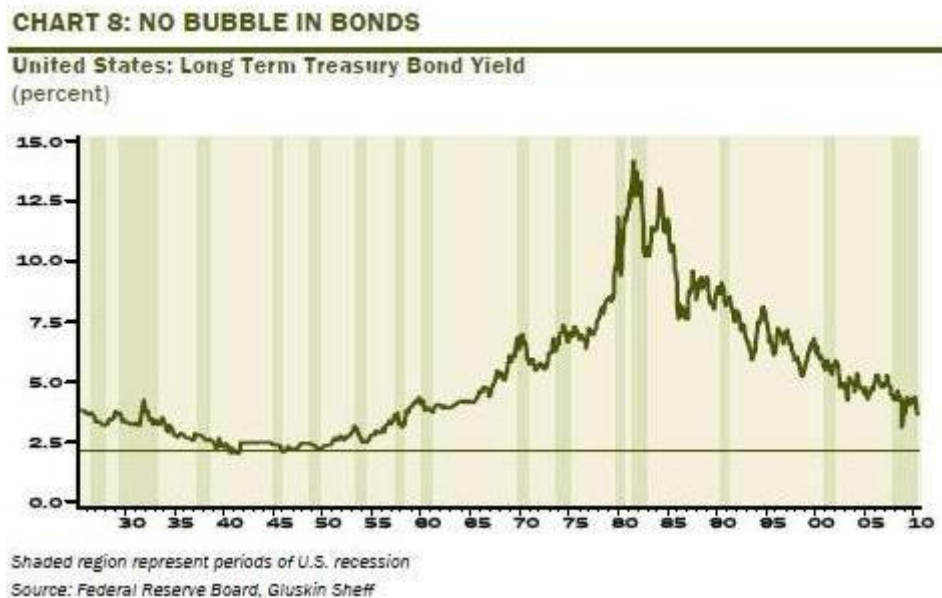


THE MEAN REVERSION OF THE LONG GOVERNMENT YIELD

WEB BUZZ 2010.08.30

Ever since the bull market in government bonds began in 1981, the Wall Street mantra has been: (1) bonds are not worthy of major consideration in an investment portfolio, (2) inflation will erode their value over time, (3) and inflation is here to stay. Everybody seems to always be influenced by their most recent experience. Those managing portfolios, and really all those born after the 1930s, have bought into “stocks for the long term” and have had no idea at all that deflation and a rerun of the 1930s could ever happen again. It is just this overwhelming opinion that has allowed us to buy government bonds at great prices, while the investment world laughed up their sleeve at us.

Please note the chart below which depicts the movement of the long bond on a yield basis for lo these many years.



Adapted from Gluskin Sheff

Please note that the yield, if it follows its previous course, will come to somewhere around 2-3% and remain there for an extended period of time. As you analyze the chart, it becomes evident that the years from 1977 through the early/mid 1980s were probably not the norm, but an aberration. It just fits what we believe has actually taken place - Keynesian interference in the economy, which caused high inflation, then a period of disinflation, followed by a debt explosion, and now a Zoloft depression coupled with probably deflation. We have come full circle. Those who do not know the past are destined to repeat it.