

## THE PRIVATE SECTOR IS IN FULL RETREAT WEB BUZZ 2008.12.22

On December 11, 2008, the Federal Reserve released its Flow of Funds statement for the third quarter of 2008. The following table details the changes from the second quarter of 2008. All numbers are on a seasonally adjusted annual rate.

### Marketable Debt

<u>Sector</u>	<u>3Q08</u>	<u>2Q08</u>	<u>Change</u>
Domestic Non-financial .....	\$2,348.1B .....	\$1,009.9B .....	+\$1,338.2B
Household: Mortgage .....	-\$258.9B .....	-\$10.5B .....	-\$248.4B
Consumer Credit.....	\$30.5B .....	\$99.7B .....	-\$69.2B
Business.....	\$321.7B .....	\$603.7B .....	-\$282.0B
State & Local.....	\$65.3B .....	\$18.8B .....	\$46.5B
Federal .....	\$2,078.5B .....	\$310.4B .....	\$1,768.1B
Domestic Financial.....	\$1,189.7B .....	\$936.2B .....	\$253.5B
Foreign .....	-\$547.3B .....	\$72.5B .....	-\$619.8B

*Note: Subsections of domestic non-financial do not include all items; \$121.0B missing.*

What the above reflects is what we really already knew from watching the headlines. The private sector is in an extreme debt retraction phase, while the public sector is in a debt acceleration mode. In addition, note that the domestic financial sector is also taking on additional debt. No doubt, the only way that much of that debt was issued was due to federal government guarantees. Assuming that is the case, then of the total debt issued in 2Q08 annualized as depicted above, 94% was due to the public sector. Guess who gets to pay off all this government debt? We wonder—how long will investors continue to consider U.S. government debt AAA quality? Is there a bubble in this market? If so, our economic problems have just begun.

## **A Note on the New Mr. Ponzi**

**The recent shocking revelation that one of Wall Street's most hallowed investment advisors has managed to lose a reported \$50B since the end of 1990 has many investors looking at their hole card. He had a great investment record investing in the S&P 100 shares over the last 17 years ended 12/31/07. That, by the way, is the life span of our record at Central Plains Advisors, Inc. His record was a 10.5% annual return. This compares to our record of 13.1% annual return. Both records are before fees. He used stocks, we used only government debt.**

**The main difference in our reported 17 years—other than the fact that his numbers were bogus and ours are not—was that out of 17 years, we had 3 negative years. Mr. Madoff had none. As a matter of fact, he had only two or three *months* of negative numbers. Obviously, the reason he reported no negative years is that investors leave a manager in droves when that happens. By not having negative years, nobody left; however, now they have been left—left holding the bag, that is. The problem is, of course, that nobody is *that* good. Investors forgot that if it's too good to be true, it probably isn't. Again we repeat as we have in the past, it's important the advisors you use. Only about 30% of those who say they are good are really good. Also, if they have never had a bad year or two, you ought to look elsewhere.**