

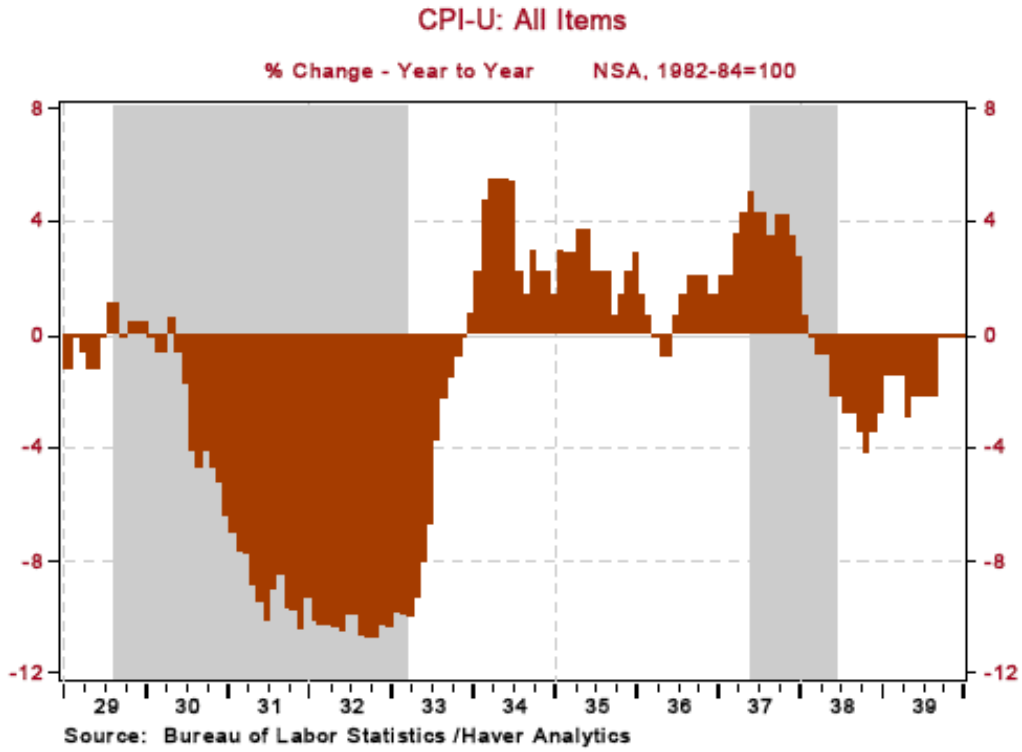
TOO BIG TO FAIL

2008.12.15

The inflationists who dominate most of the investment community cannot seem to get over the fact that the U.S. Treasury is issuing debt and paying no interest. Last week, for example, \$27B of 90-day treasury bills was sold at a discount rate of .005%, the lowest auction rate since 1929. Also, \$30B of 14-week bills was sold at 0%. The 2-year Treasury note is at 0.8%, and the 1-year bill at 0.45%. The following is our thinking in regard to why this is taking place and really not a surprise at all.

- 1. Interest rates are stated in nominal terms. When you have deflation, real rates are a plus. For example, if deflation is 2%, and the nominal rate is 1%, the real rate is 3%. Cash in the bank (assuming the bank is sound) that pays no interest is really paying 2%. Please keep in mind, the deflation percentage is non-taxable.**
- 2. The U.S. is entering a lost decade, Japanese-style: slow to no growth. Socialization of our economy, which will result in inefficiencies, also will be our environment for the future. One needs only to watch and listen to Washington D.C. to realize how much trouble we are in.**
- 3. The remaining 75% of the world economies are dependent on us. *We are too big to fail.* Just as we bail our banks out, they will bail us out.**
- 4. As bad as we are, as poorly as we all run, as stupid as Washington D.C. is, as stupid as Wall Street is, as heavily populated in lawyers and accountants we are, as weak as our currency is...you know what? We are better than all the rest!**

By the way, the following chart is what deflation looked like in the 1930s. We imagine the next few years to come may look something like this.



Adapted from SafeHaven.com