

Vicious to Virtuous Cycle in Place

August 21, 2006

The two most “hated” asset classes for the last year or so, have been the US dollar and the US government 30-year bond. Those who have led the charge have been Warren Buffett and Bill Gates, two of the most successful business investors of all time. It has been reported that Warren is closing out his short selling position of the dollar. One newscast had his loss at \$950 Million. We have no idea if that is true. We also don't know what Bill has done with his short position. The latent demand for dollars must be large, as there are many shorts that will need to be covered.

It is our position that the US dollar and the US Government 30-year bond are premier assets, at least for the next several years. Why? Debt, that is why. The consumer and corporate America are continuing to increase their borrowing ways. The financial sector is also becoming rather heavy laden with debt. Debt denominated in dollars must be paid off in dollars, therefore as the economy becomes softer and softer, and as the consumer's debt service becomes more and more difficult to handle, the demand for dollars to pay debt will explode. This sets in motion for us a virtuous cycle, which has been a vicious cycle for the past several years.

The charts below tell the story. The dollar and long government assets appear to have bottomed. Look for new highs in prices to advance.



\$USB (30-Year US Treasury Bond Price (EOD)) INDX

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Open 109.56 High 109.56 Low 109.19 Close 109.31 Chg -0.19 (-0.17%) ▼

\$USB (Daily) 109.31

