

WHAT IN THE WORLD IS GOING ON?

WEB BUZZ 2008.11.03

It seems as though Octobers are just plain terrible for the performance of financial markets. It was in October that we had the stock market crash of 1929. It was in October that we experienced the crash of 1987—a decline in one day of 22%. Below, note the month of October 2008.

Dow Jones Industrials	-14.1%
S&P 500.....	-16.9%
NASDAQ Composite	-17.4%
Investment Grade Corporate Bonds	-7.4%
Gold	-16.6%
Silver.....	-18.3%

In addition to the above, the spreads between government and corporate bonds reached new highs since the 1930s. Municipal bonds over the last several months have been a disaster; however, have rallied somewhat from the low of several weeks ago. Yet high quality municipal bond yields are still greater than government bonds, despite the fact that they are free from federal taxes.

The markets are being sold primarily as those who own these securities in many cases have purchased them with borrowed funds—and the banks want their money. In the case of government bonds, these may have been sold to obtain money to pay for margin calls. Do any of these markets deserve our attention? Have we seen the worst? Is the economy on the mend? Should we jump in and buy now? Frankly, we don't believe deleveraging is over, and we remain unsure as to when it will hit bottom, but the following is our considered judgment at this time:

- Stocks remain very much overvalued
- Corporate bonds of lesser quality will go even lower in price
- Municipal bonds remain suspect

- **Long-term government bonds are a screaming buy**

As we have maintained for many a year, deflation will be in the headlines in the not-too-distant future, and man will that be good for long-term government bonds!

Current fiscal and monetary public policy is bad for a free enterprise economy, and there is much more to come. This simply means that private sector assets will remain under the gun for an extended period. It may not be the end of the world, but it might seem like it.