

When is it Going to End?

August 23, 2004

Every year for *at least* the last 5 years, all we have heard from Wall Street and other money managers, pension fund consultants, and others is the following as it relates to the financial markets:

1. Everybody knows three things about interest rates:
 - a. Rates are historically low
 - b. Rates can go no lower
 - c. Rates can only go higher.
2. Everybody knows that the stock market is a good value
 - a. Interest rates are historically low, making the discount on future cash flow more valuable
 - b. There is no place else to go

It seems as if the entire world is valued on the basis of “historically low interest rates.” Let us say a few things about interest rates:

1. At least 90% of those projecting interest rates don't have a clue
2. What is really dangerous is that they think they do.

Please note the following chart. What do you think? Are these historically low interest rates?

