

THE WAGER ON CENTRAL PLANNERS

JULY 7, 2000

Before the start of this bull market in 1982, our views were controversial. The main one, "no matter how much the Fed prints, stocks will outperform commodities", was impossible according to Street wisdom. This has worked out, but yet to be concluded is the other observation that the Fed would never voluntarily quit its portion of credit inflation.

These points required no great imagination or conjecture. There was no evidence in the literature of a senior central bank ever preventing a financial bubble. Indeed, there is ample evidence of accommodation and even complicity in the speculative furies.

A prudent investor approach would consider that the wager that policymakers can keep a bubble going has never been successful. Keep in mind the "convergence" theory that European spreads would narrow to almost zero with the EU. Promoters of this one didn't do their due diligence. When most countries in Europe were on a gold standard, which is the best common money, yield spreads between, say, Spain and Germany were significant.

The convergence wager was one of the greatest and most expensive blunders in financial history.
- Pivotal Events

INTEREST RATES & STOCK MANIAS

JULY 14, 2000

No Need to Worry Until Interest Rates Head Down in September

Our conclusions on interest rates and speculative stock markets is based upon empirical evidence rather than intuitive conjecture. Earlier in the year, the T-Bill rate soaring to 6.20% prompted hand-wringing at both the official and pundit levels.

As previous speculative rushes were attended by rising interest rates, there was little need to worry until rates turned down. These typically attend subsequent sell-offs. This has been the case and renewed convictions in equities has been accompanied by bill rates rising from the low of 5.61% on May 31 to 6.16% this week.

To add to Alfred E. Newman's dictum, there is no need to worry until rates turn down, which has been expected to start in early September. [Emphasis added] - Pivotal Events