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ZERO INTEREST

"Zero interest" is a phrase that generally is used to describe one's apathy toward a particular person or subject matter.

When it comes to investing, "zero interest" has a slightly different connotation. It describes a situation in which money has apathy. If we can imagine a world in which we invest money in an interest-bearing security and get virtually nothing in return, we officially have arrived.

For all intents and purposes, short-term US Treasuries are now paying a zero rate of return. (90-day T bill is 0.01%; 180-day T bill is 0.17%; 2-yr T note is 0.79%.) In a perverse sort of way, we are now paying Uncle Sam for the privilege of using our money. It ought to be the other way around.

By far and away, Uncle Sam is the world's largest debtor. Its credit is increasingly suspect because Uncle Sam is printing trillions of Dollars at breakneck speed to rescue both Corporate America and Joe Six Pack. In addition, Uncle Sam is now resorting to racketeering. If we don't like the stock market, we can pay Uncle Sam to protect our money.

When investors are willing to accept a zero rate of return from the one of the world's most suspect credit risks, it signifies that we must be in a very bad place and time. It is as though we have been exposed to a financial disease whose cure is neither clinically tested nor FDA approved. Accordingly, we must be prepared for a broad range of outcomes. As investors, this involves pursuing competing strategies, some of which will succeed and some of which will fail. All we can hope for is that we make some good timing decisions in shifting the relative weighting of our competing strategies.

Zero interest is now materializing in other civilized parts of the world, such as Switzerland. This phenomenon also is no stranger to Japan, which harbored zero interest rates for most of the 1990s and is now rapidly retreating in that direction. Global currency markets are now so unstable that they trade like the dot.com stocks of yesterday. We cannot have stable "anything" without stable monetary units. Witness the sudden transition in our cost of living from soaring prices to collapsing prices. This cycle is bound to repeat and repeat until the global monetary system can be anchored to something finite or of universal value, be it gold, oil or grain.

The instability of money is what underpins our strategic investment planning. Today, we have collapsing prices that are a function of falling incomes, mass loan defaults and forced asset sales. Tomorrow, we can expect rising prices that either are a reflection of recovering incomes or a declining faith in conventional money. We should hope for the former. If we get the latter, it means that the US Government has administered an overdose of Dollars to an ailing economic patient and the consequences could be near fatal to our traditional way of life. Failure to prepare for this possible outcome would be negligent.

At present, the *DocOnomics* team has constructed parallel investment strategies to deal with both falling prices and rising prices. The present environment of falling prices can change virtually

overnight, just as it did 4 months ago when oil began its rapid descent from \$147/barrel to \$42/barrel and the prices of most other commodities collapsed in tandem. Today, both the US and world economies are going through painful withdrawals from debt addiction but can be expected to undergo violent mood swings as many experimental forms of treatment are introduced.

A year ago, if anyone had strongly advocated that the all of the leading US financial institutions would soon be bankrupt or on life support, most of us would have expressed zero interest in that type of thinking. Similarly, if anyone had suggested a year ago that the US and most of the world were plunging into deep recession (with true unemployment rates of 10-20% in many regions), there would have been practically zero interest in that story. Well, all of the above has come true and it is being broadcast in living color.

The events of the past 12 months underscore why our investments need to be positioned for an extended range of outcomes. Who is to say with any authority that we are closer to the end of this downturn than the beginning? Until we see some very solid economic building blocks being put into place, we should ignore the mirages created by the shifting sands of political rhetoric and desperate economic policymaking.

We must be diligent in not relying on backward-looking data to give us an accurate picture of today's world. To the best of our ability, we must try to comprehend what is happening here and now and what it will lead to in the months and years ahead. Given the magnitude of our nation's financial stress, it is entirely plausible that something so completely unexpected will be introduced into the problem-solving equation that our initial reaction will be one of shock and disbelief. We at

DocOnomics can only venture some wild guesses, so here goes:

1. Government officially becomes the nation's largest bank
2. Government officially becomes the nation's largest landlord
3. Government officially becomes the nation's largest energy company
4. Government officially becomes the nation's largest transportation company
5. Huge reforms in securities trading (e.g., major restrictions on pure speculation and leverage)
6. Huge reforms in money lending (e.g., loans to be held and serviced by originating firms)
7. Strict rationing of many consumer and industrial goods (especially those that are imported)
8. Strict limits on life insurance ownership
9. Strict limits on intergenerational wealth transfers (meaning that the government will inherit our estates)
10. Forced transfer of private retirement savings into government bonds
11. Forced change in retirement threshold from age 65 to 78 (in recognition of a 20% longer life expectancy from previous generations)
12. Forced substitution of public transportation for private transportation (e.g., limit one vehicle per average family)

Although the above is an exercise in pure conjecture, it helps us to focus on what might happen rather than what already has happened. This is especially true in a crisis environment in which our policymakers appear to be running out of kitchen sinks.

Suffice it to say that there are some things in life that we simply cannot prepare for but that doesn't mean we should stop paying attention. Even though we didn't sign up for these most challenging of economic times, the worst thing we can do is to lose interest.