

Cry For Us, Evita?

Total credit market debt in the United States is now almost \$53 trillion, more than 375 percent of gross domestic product (GDP), up from about 150 percent of GDP in the 1970s. The chart on the back page gives us the same feeling that it should give you, dismay that something is amiss. For capitalism to work, you need capital. In recent years, we have not been supplying sufficient capital (investment stemming from savings) on our own. Over 70 percent of our GDP is personal consumption, versus 35 percent for China.

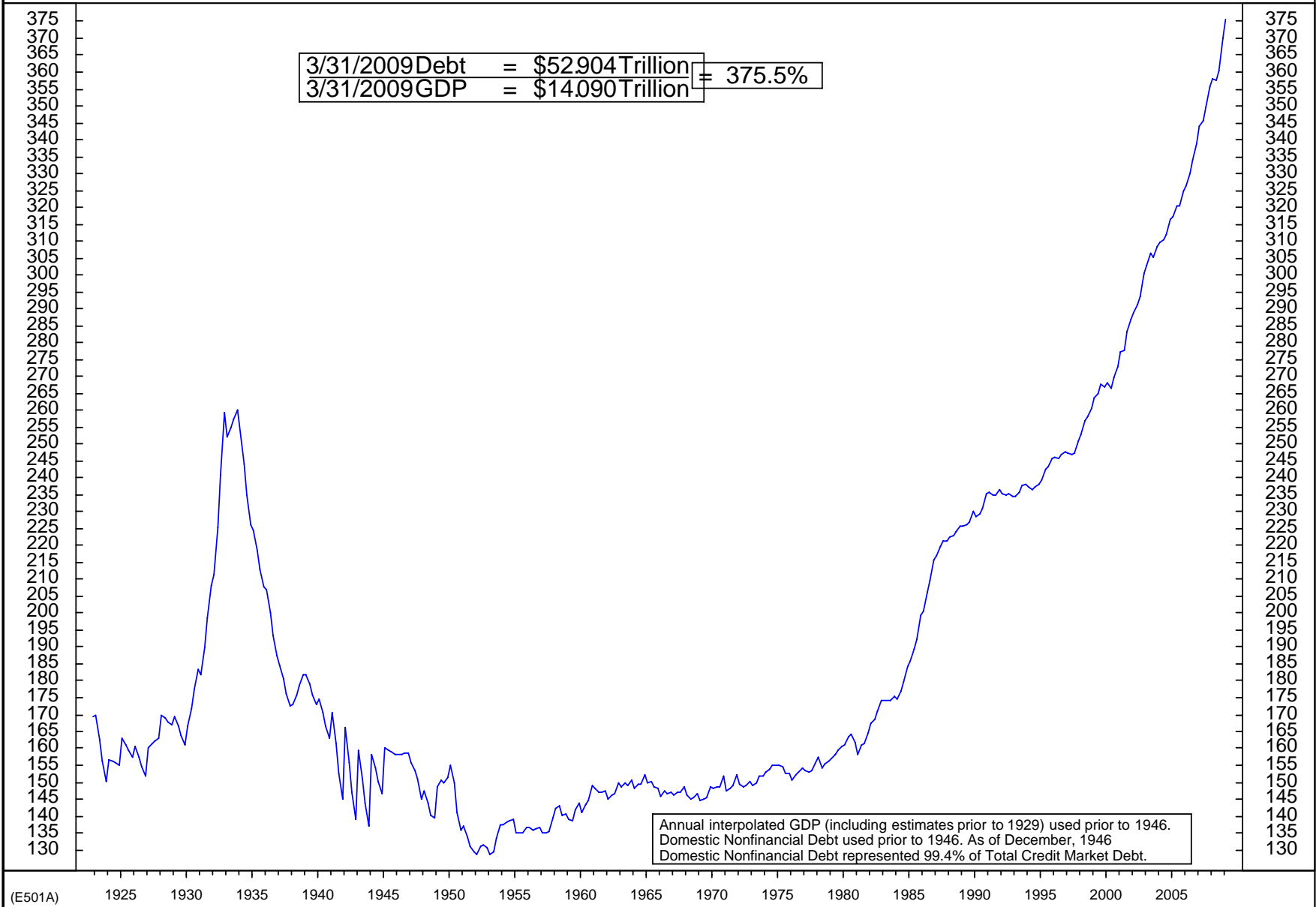
China and other emerging market countries orient their economies towards investment by producing goods others will consume. In large part, we have been the “others,” a role that is not sustainable given our levels of debt. Over past decades, it has taken more and more debt growth in the U.S. to produce less and less GDP growth. The U.S. savings rate has been at record lows, even negative.

In baseball, managers term a batting average of .200 the “Mendoza Line,” named for Mario Mendoza, a slick-fielding shortstop who was a poor hitter. The Mendoza line marks the minimum average below which even an exceptional defensive player is no longer worth having in the lineup. When we look at the debt chart, we wonder if there is an “Argentina Line,” a debt level above which the world’s economy stops taking you seriously. (We love the people of Argentina, but not their economic managers). Pass that line, and it is no longer feasible for the dollar to be the world’s reserve currency.

We believe the stock market’s thrust upwards from the panic bottom in March was strong enough to propel the market higher, at least for a while. However, our structural economic problems, indicated in part by the credit market chart, lead us to conclude that this is not the start of a bull market measured in decades, like the huge bull market from 1982 until 2000, but a choppy period with many sharp moves up and down. There will be many bumps in breaking our addiction to debt. These bumps will affect the investment markets. The prudent approach will be tactical flexibility, not just throwing money at stocks and expecting to prosper. If you would like our help, contact us at www.sigmainvestment.com or (503) 419-3938.

Total Credit Market Debt as a % of GDP

Quarterly Data 12/31/1922 - 3/31/2009



Source: Ned Davis Research, Inc.

