

Bullet Points

April 22, 2010

- Going up!
- As anticipated, interest rates are already beginning to ratchet back up. It's hard for the elevator to go any lower than the underground parking garage.
- Interestingly enough, it doesn't even take inflation to push rates higher.
- All it takes is a healthy stock market, an economic recovery that is starting to look more like a V than a U and growing reluctance on the part of the Chinese to buy more treasuries.
- Given that the Chinese invented money, this should come as no surprise. About 70% of China's giant foreign-exchange portfolio is held in liquid U.S. dollar assets such as Treasury bonds.
- The recent call by China's central banker for rethinking the dollar's role as reserve currency of choice reflects growing unease about the threat of the dollar's decline more than a desire to bring about this outcome.
- They are forced to the same conclusion many of us already have regarding the political class and its need to inflate its way out of these historically unprecedented deficits.
- Unprecedented in the United States that is. I believe Germany had a similar experience after having spent/borrowed too much money prosecuting the First World War and maintaining the World's then most evolved social safety net.
- So what's next?
- Hoarding of some sort I believe. You can already see it manifesting itself in steadily escalating commodity prices. Can \$4.00/lb copper and \$100/barrel oil be too far away?
- The next bubble has already arrived. All that remains is for it to become more focused.
- If you haven't already prepared for the next wave of inflation you need to.
- A year ago when we started talking about this, inflation protection was cheap. Now it's more expensive, but the need is more pressing.

Action recommendations:

1. Put at least 10% of your portfolio into TIC commercial real estate investments. As the most despised asset class in America, the timing couldn't be better. When no one wants to buy it, you should be accumulating it. We have not seen prices this low and cap rates this high since the late '80s.
2. Remember Bernard Baruch's famous quote about how he made money in real estate, "I simply bought it when everyone wanted to sell it to me and sold it when everyone wanted to buy it from me." It's not difficult, it's just counter-intuitive.
3. Keep your stocks where they are and resist the temptation to move into bonds. Interest rates have only one way to go which is up. This is bad for bonds.
4. There is no way to avoid market short-term volatility, whether it is related to the mark down of sovereign debt or political witch hunts. These stories will be with us for a while. However, there is a background dynamic and they will be outweighed by strong performances from corporate America.