IS CASH KING?
DON'S BLOG 2019.04.02

For the last 20 years or so, nominal total returns for both stocks and bonds has been within $1 of being exactly the same—approximately 5%. Also, during this period inflation ran around 2%, thus the real total rate of return was 3%. Haven't we all been led to believe that 10% is the normal for stocks and 4% for bonds? That, my friends, was well before rapid growth in debt accumulation. The story is and will continue to be that excess debt is killing this economy. Please note chart #1 reflecting the rates of total return from stocks and bonds, and chart #2 depicting the growth in debt.

Please compare those numbers to what we understand is the expected rate of return of our public pension funds—for many years it was 7% to 8%, now it's lower but in my opinion much higher than the probable 2% return that will be seen in the future. Something has to give here.

I don't believe it's possible to grow our economy out of debt. Default one way or the other must take place. This will not be looked upon very kindly by those of us in the private sector. I would guess that over the next several years this is going to be a very contentious matter. No politician can run on a platform of higher taxes and less government. We are well past that point. This means that things must get much worse before getting better. The level of conflict may be greater than one can imagine. Debt deflation may be just around the curve.

You all know from my blogs that I am quite bearish and have been for some time. Maybe we will witness a slow grinding downward in the financial markets. That's really my hope. This we can adjust to. What we don't want to see is a crash of any sort. On the other hand, maybe I'm just a grumpy old man that believes everything is going to hell. My record of past predictions does leave much to be desired. On the other hand, if all one can look for in risk assets is less than 2% or 3%, cash doesn't look so bad.

Chart #1

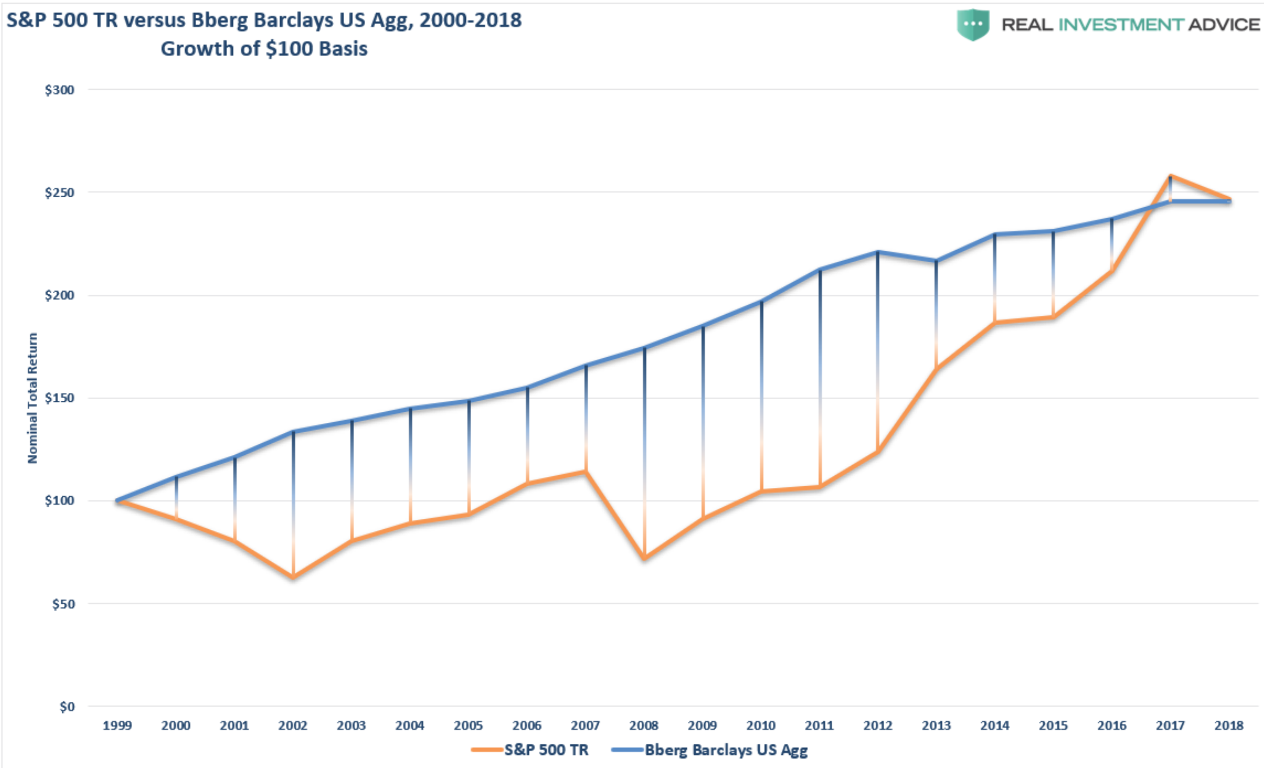

Chart #2