The Correlation Between Morons and Government Debt

By The Mogambo Guru

06/14/10 Tampa, Florida – DWS Funds is a "member of Deutsche Bank Group," which I assume because it says so right on the cover of DWS Active magazine, an outfit which has somehow, without me actually noticing, over the years taken over some holdings of mine, so that now I sit, locked in a bunker and peering out at a hostile world through a periscope, wondering how a bunch of foreigners, who almost certainly hate my guts, in this case Germans, took possession of my American mutual fund, and thus took possession of my money, probably like somebody took possession of the Federal Reserve and thus took possession of America's money, in which case we know exactly who it was, and it was Alan Greenspan and then Ben Bernanke, two villains who chaired the Federal Reserve and whose names will live in infamy because of the inflationary terrors unleashed by their irresponsible creations of more and more money, even more treacherous so than the attack on Pearl Harbor in 1941, which gave rise to that "live in infamy" phrase, as these are The Guys who destroyed the buying power of the dollar and destroyed the USA.

Anyway, the magazine doesn't get into any of that, or even mention how I hate the Federal Reserve with an incandescent, white-hot fury, and instead presents an interesting graph titled "Where are interest rates headed next?" which showed the yield on 10-year Treasury bonds graphed from 1954 to 2009.

It is interesting in many ways, I suppose, but the only one I am interested in is the one where the only logical conclusion one can draw is, "Head for the hills! We're freaking doomed!"

In this particular case, in 1954, where the graph begins, the yield on the 10-year bond was about 3%, and it gradually increased exponentially, rising and rising, faster and faster, exponentially, until reaching its high in 1981, when the 10-year bond yielded a juicy 15.32%! Nice!

Thus 1981 would have been the perfect time to buy longer-term bonds yielding around 15%, because ever since 1981, rates have been falling in a mirror-image exponential fashion until they are now, 28-years later according to the graph and 29 years according to the calendar, again yielding around 3%!

The lesson is in the knowledge that because the price of a bond changes inversely with the yield, the guys who bought long-term bonds in 1981 have gotten BOTH the 15% yield AND a huge increase in the value of the bonds as interest rates fell!

Taking the completely simplistic interpretation, this means to not buy bonds now, or at any time in the next 28 years, if there is anything to this 55-year cycle thing, which I doubt because nobody has ever suggested that there is such a thing as a 55-year cycle, and I just made it up because it sounded alarmist and I am actively trying to get people freaked out enough to say, "Throw Obama and his coterie of incompetent One-Worlder socialist government-hacks who have never had a real job or started a real business, and thus have no idea of how anything works outside of academia and government, out of office, down the stairs, and out, out, out into the slimy side streets and fetid back alleys, to live with the other diseased vermin found there, and where they shall be forever shunned as unclean," which I admit is a little too stilted in language, for one thing, and I don't think it is going to happen for another, although it should, and would, if I could get "The Mogambo Omnipotence Act" through Congress, whereby I could seize complete dictatorial power.

And if you are, indeed, buying government bonds now, then you are indeed a big idiot, and people are justified in laughing at you derisively, pointing at you and saying, "Look, children! There is the moron that was buying long-term government debt at the end of the 55-year interest-rate cycle that the Wonderful And Wise Mogambo (WAWM) first introduced to the world in a paragraph above!"

Well, I know that it seems cruel to belittle such morons and mental defectives, especially since the losses they will suffer from doing such a stupid thing as buying bonds at the lows of the new Mogambo 55-Year Cycle Theory (M55YCT) will destroy them, which makes adding Stinging Mogambo Insults (SMI) to their very real injury seem petty and vicious, which, I admit, it is.

In my own defense, "petty" and "vicious" are actually just two of my more prominent Mogambo Personality Traits (MPT), along with related other characteristics such as angry, paranoid, surly, sarcastic, cynical and (depending on your definition) borderline psychotic.

In case you were wondering, the average yield on the 10-year government bond since 1954 until 2009, from the 55-year period's opening and ending lows of 3% and including the 15.32% high right there in the middle in 1981, is, according to these guys, 6.36%, which means that the current 10-year yield of 3.3% is about half of the long-term average! Who the hell would buy bonds now, except the mentally defective or government, as redundant as that is turning out to be?

I make this point only because I am obsessed with inflation in prices because I am obsessed with the way people go crazy in response to inflation in prices, mostly because I am obsessed with how these bankrupted, starving morons are going to see how high gold, silver and oil have risen as their poverty and misery increased, and then they will remember how I was always yelling at them to buy gold, silver and oil for all those years, and how I called them "morons" when they didn't.

And then I am obsessed that they will figure that I must have a lot of gold, silver and oil, and that maybe they would come over to my house and assault the Big, Beautiful Mogambo Fortress (BBMF) to get a little of that sound money and valuable assets with which to relieve their wretchedness, and I will watch with my finger on the trigger while my wife and kids will be grabbing at my arm, pleading, "Don't shoot! They are our friends and neighbors, and I see grandma in the crowd, too!" while the mindless mob keeps getting closer and closer, step by step, more menacing by the minute, and you don't know what to do!

And in my panic I will remember the last time this kind of situation came up was when the minister said to me, "Do you take this woman to be your wife, to love and to hold, in sickness and in health, blah, blah, blah?" and how THAT turned out!

So, desperate for some good news, I was gratified when I turned the page to see another spiffy graph, titled "Positive Correlation"! Something positive!

Well, it shows what appears to be the coefficients of correlation, where everything ranges between 0.0 (no correlation) and 1.0 (perfect correlation), as applied to inflation in consumer prices over the last 5 years versus various interest-sensitive things, like short-term bonds, large-cap equities and TIPS bonds, with the numero uno – number one, top dog and winner by half a length! – asset showing the highest correlation with inflation being (may I have the envelope, please?) floating-rate loans!

The rate on these loans correlates the highest with subsequent inflation, with a correlation coefficient at just under 0.5, swamping the second-place entrant, commodities, which came in at about 0.28!

I say, "Hmmm! Interesting!" in that low, mirthless, hollow laugh of Pure Mogambo Greed (PMG) as I perceive, perhaps, some interesting advantage in the use of these particularly interesting facts!

Unfortunately, I, as a pathetic genetic freak, deserve a Handicapped Parking sticker because I lack, through a genetic defect that is no fault of my own, the requisite intelligence to understand how to take advantage of the facts, further hampered by a genetic defect of a complete lack of ambition, overlaid with a genetically-determined lazy streak a mile wide.

All of this tragic genetic mumbo-jumbo prevents me from ever being rich enough to ever finally get out of this little stupid nowhere town, where all the stupid people are so stupid that they don't buy gold, silver and oil in response to the horrific inflationary implications of the unholy Obama/Federal Reserve alliance creating and spending So Freaking Much (SFM) money, a situation that makes whole swaths of neurons in your brain sputter (Zzzt! Zzzt!) and die horrible deaths from merely contemplating it!

Fortunately, I found a better investment than shorting bonds, which is a guaranteed winner in itself: buy gold, silver and oil, which are all unbelievably undervalued by a Long, Long Shot (LLS), and getting longer, shot-wise, with every new dollar created by the Federal Reserve to feed the insatiable, grasping maw of the government.

All of which make gold and silver and oil go up in price, which is the whole point of investing, and again proving that "Whee! This investing stuff is easy!"