

Winter 2009

I recently called a wonderful, small, chocolate maker about some treats for a project we're involved with...and I asked about a discount for the bulk order. They said there would be a 10% discount. That was fine and so we proceeded to the billing details. The last part of the computation was this gigantic charge for shipping...as if the employee had calculated shipping per item. She insisted that it was proportionate to the price and did not offer to consider the fact that it was one box coming to one address. I realized that I could have spoken to someone of more authority...and still may...but it made me think about the tenor of this note.

There was almost \$9 trillion in what's considered investable assets--- cash, bank deposits and money market funds—according to Federal Reserve data compiled by Leuthold Group and Bloomberg and disclosed in a December report. (That happens to approximate 75% of the total value of all U.S. companies.) There has also been a fantastic attraction to treasuries, such that current yields remain at record low levels. The Federal Reserve's short-term lending rate is a target area between 0 and .25%. Across the pond, the Bank of England recently reduced their benchmark lending rate to the lowest level since its founding in 1694).

These huge amounts of low-yielding cash appear more than satisfied with record low returns. The sense of security has overwhelmed a longer-term concern for the potential erosive power of inflation. After-all, why bother with yield when the alternative (potential) investment is going down in value. So for those in a 3 year treasury, [that currently earns a taxable yield of 1.2%](#), their supposed belief must be that their future investment opportunity will be cheaper. For example, that 1.2% yield is more satisfactory than the yield they could be earning in the rest of the debt market such as a 3 year, high grade, "tax-free", municipal bond at 2% or [an AAA \(taxable\) corporate bond at 3.5%](#). Another alternative could be a utility stock [that may yield 6%](#), though not guaranteed, [and is favored by current tax code](#).

And of course the alternative uses of investable cash would include a housing market where the National Association of Realtors affordability index hit its highest level (141.8 in Nov. '08) since records started in 1988. (The lowest...or worst...level occurred in 2005.) And the list continues with all stocks and bonds...and real estate...from all countries, as well as "investments" in the direction of currencies and commodities, etc.

[That's not all that companies and people might use their accumulated cash for because there would appear to be consumer purchases delayed...and entertainment and travel denied or postponed...as evidenced by rising savings rates.](#)

And therein lays my wonder: have we returned to a much more normal time when consumers have a proper relationship with merchants and contractors and professionals and sellers of all manner? Despite my shipping charge issue with the chocolate maker, I think the answer is that we have. This new "normal" means prices are lower in almost everything we used to buy or are considering buying....and competition for products and services remains strong. And it's a worldwide phenomena.

So if we apply it to a practical, familiar adage like "[buy sweaters in a southern spring](#)", I suggest everyone and every dollar will sooner, rather than later, begin the process of examining the time of their need and the product appropriate for that need. Translated into an investment perspective, people need cash-flow and enough growth in their investment portfolio for current or future needs. Corporations need returns on investment for growth and dividends and debt payments. Municipalities and governments need returns which allow them the ability to meet long-term cash flow obligations like debt coverage and retirement distributions. Money markets and treasuries, yielding essentially nothing and not-much-more-than-nothing, respectively, are so unlikely to meet these future needs.

As always, what is more practical than a bargain on something one needs? For those who are fully invested, the current environment requires an especially timely review of the portfolio allocation. For those dollars in shorter-term asset classes, earning very low yields, be a smart shopper now.

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