The Polar Letter

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The problem with socialism Is that eventually you run Out of other people's money

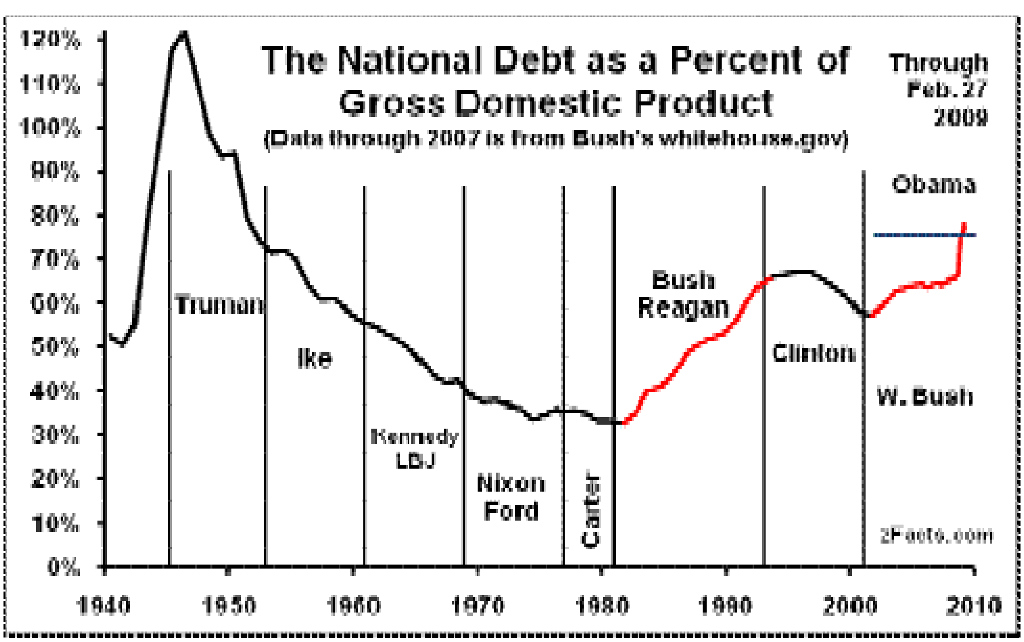
Margaret Thatcher

The United States dollar is the world's reserve currency, so, the U.S. has the rare privilege among nations of being able to borrow (and then repay its debts) in its own currency. In other words, the U.S. can literally (to a certain extent at least) print money to finance its life style. However, this reserve currency status, which we have enjoyed for decades, is not a birthright and by no means gives our nation license to act irresponsibly indefinitely.

U.S. debt held by the public is now just a bit over $6.6 trillion, which is up from $5.3 trillion just a year ago. This does not count $5.3 trillion in Fannie Mae and Freddie Mac liabilities, $29 billion in Bear Sterns paper, over $300 billion in very questionable Citigroup assets, nor hundreds of billions in Federal Housing Administration loans. The president's stimulus plan and new budget will require additional $3 to $4 trillion in new borrowing over the next two or three years, and that is if the economy recovers swiftly.

The current U.S. debt to gross domestic product (GDP) ratio is between 70% and 80% depending upon whose statistics one views and which debt items are included. This is up from the 30% to 40% area during the very early 1980's (the beginning of the great bull market by the way).

Please see the chart below.



Unfortunately, given the propensities of the present administration, we are of the opinion that the U.S. debt to GDP ratio may well exceed one hundred in the coming couple of years, a number not seen since the aftermath of World War II. This is far from positive in today's excessively leveraged world.

Accordingly, we continue to advise our readers to avoid traditional equity investments in general and limit debt investments to short term and high quality instruments. Although the U.S. (and other) equity markets may be in the midst of a rally, in our opinion, it is a bear market rally, and strength should be used to reduce any present exposure. We doubt we will see any reason to enter the equity markets (other than on a trading basis) for at least a year and possibly longer. That said, we believe there may be developing opportunities in both the Canadian and Australian debt markets, but only for aggressive portfolios.

Our managed futures programs are up very slightly thus far this year (the S&P 500 being down about 13%), after a very spectacular performance last year. Such programs, while not suitable for all clients, are available for most all retirement accounts including IRAs. Please remember that these programs are capable of profiting in any economic environment.

Please view the CME Group's (Chicago Mercantile Exchange) by clicking here: ***CME BROCHURE***

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Michael C. Jordan
President

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