

Buying T-Bonds for Dummies

By [The Mogambo Guru](#)

02/18/11 Tampa, Florida – I was somewhat staggered when I saw that Total Fed Credit shot up by an incredible \$31 billion dollars last week, which (in the history of new Fed Credit) is right up there with “the biggies.”

Another biggie was that the Fed created the money to buy \$28.3 billion in US government securities! All of this in One Freaking Week (OFW)!

Of course, the money went through a lot of middlemen, like the Fed banks so that they can get a little piece of this “monetizing-the-debt” action, and financial-services industry got a taste to handle the transaction since the Fed is, so they say, prohibited from dealing directly with the Treasury Department, which is issuing the deluge of bonds and desperately needs somebody really, really stupid to buy them.

Since really, really stupid people with lots of money to invest is about as rare as a good 50-cent taco, nobody in their right mind is going to buy T-bonds at such high prices (and thus low yields) when the despicable Federal Reserve is creating So Freaking Much Money (SFMM), because all that new money inflation means high rates of price inflation, meaning that bond prices should fall precipitously, and especially those bonds that were already so highly-priced that they end up (in precise mathematical terms) with yield = squat, so that from then on, everybody would point at them on the street, and laugh at them, and say, “There’s that doofus-goofus that bought all those high-priced government bonds at insanely-low yields when the Federal Reserve was creating So Freaking Much Money (SFMM) that only an idiot like ol’ doofus-goofus here would buy them! Hahahaha!”

Enter (sound of heavy footsteps) the Federal Reserve.

I assume that Doug Noland was commenting about this whole nasty Federal Reserve thing, too, when he writes, “First, it was the Federal Reserve. After working studiously to create one, the Fed tossed its vaunted ‘exit strategy’ right into the scrapheap. They were to have moved to reduce holdings and liquidity operations that had ballooned during the 2008 financial crisis. Our central bank abruptly reversed course and instead chose to significantly expand stimulus – even in a non-crisis environment,” so that now “Fed Credit has inflated \$189bn in the past 14 weeks, with market perceptions of ‘too big to fail’ and moral hazard being further emboldened.”

I am perfectly delighted by Mr. Noland’s use of the sophisticated phrase “further emboldened,” and suddenly realize what all those people meant when they said to me, “Why don’t you write like Doug Noland instead of that Stupid Mogambo Crap (SMC) you write, which makes you sound like a mental defective yammering, yammering, yammering about the same damned thing; buy gold, silver and oil when the Federal Reserve is creating so much money so that the end-result must be a hyperinflationary collapse, where all is in ruins, and bitter wailing is heard as a woeful chorus echoing across the bare, blighted, blackened, beleaguered land, except for gold

and silver, which soar in value, as evidenced by that very result happening every time in the last 4,500 years when some dirtball government borrowed and spent its way into un-payable bankruptcy, and especially when using a worthless fiat currency?”

Mr. Noland makes no mention of my delicious phrase “bitter wailing is heard as a woeful chorus echoing across the bare, blighted, blackened, beleaguered land,” which constitutes my valiant effort to wax lyrical, as he does with his memorable “further emboldened,” responding, as is my wont, to the use of massive firepower with 16 words to his pathetic 2, unless you are weighting the scoring towards brevity, and then I’m screwed again! Damn! Damn! Damn! I hate this!

Now you can see how everybody is out to get me, making me look ridiculous and showing off about how smart they are and how stupid I am. I mean, how long do I have to take this crap all the time?

Mr. Noland does not wade into my Mogambo Swamp Of Paranoia (MSOP), and instead goes on, “There was also a popular movement to rein in extraordinary fiscal stimulus. Well, there has been talk and bluster and, what do you know, additional stimulus – and no exit anywhere on the horizon.”

Well, to be fair, I can see how the whole idea of reining-in fiscal stimulus is ridiculous, as the whole idea behind fractional-reserve banking was predicated on the dismal, inescapable fact that once you start allowing the banks to create and loan massive, unbelievable multiples of every dollar deposited, you can’t stop.

And the reason is simplicity itself: if you borrow \$1 and promise to pay back \$1.05, it is one thing, but if everyone borrows \$1 and promises to pay back \$1.05, then it is quite another!

Obviously, a lot of people are going to have to borrow \$1.10 to pay back the \$1.05, and then they have to borrow \$1.16, then \$1.22, then \$1.28, all the time getting worse and worse and worse.

And now that government (local, state and federal) spending comprises HALF of all spending in the USA, the system has hideously mutated into a giant corrupt cesspool that is totally dependent on borrowing to support government spending.

It seems all very complicated, of course, but thankfully all one needs to know is to buy gold, silver and oil when the Federal Reserve is creating so much excess money! Whee! This investing stuff is easy!