One of the biggest economic and market concerns that we harbor is the enormous burden of debt residing on public and private balance sheets. There are two facets to the debt issue that are worth keeping in mind. First, debt plays a large role in funding current economic activity. Second, significant debts from public and private consumption of years past are still outstanding and must be serviced and ultimately paid off. The technical alert and trade idea discussed in this article is not just for bond investors and traders.• The gravity and ubiquity of this problem is of utmost importance for those forecasting economic growth as well as investors of equities and every other asset class whose returns are predicated on economic activity.

The Lower Forever Scheme

Through inflation targeting and abnormally low interest rates, the Federal Reserve has been complicit in pushing the growth of debt beyond the aggregated ability to pay for it. One look at total debt or the ratio of government debt to GDP graphs makes this clear. Despite a few disruptions, this deliberate policy has driven economic growth but at a very high cost. The problem for us to consider is that a large amount of economic activity is predicated on ever declining interest rates. Further, the performance of most asset classes has clearly benefited from abnormally low interest rates. Most notably, stocks have once again soared to extremely high valuations in large part for the following reasons:

- Low interest rates make equities attractive versus low yielding bonds
- A lower discounting factor makes the present value of future corporate earnings higher
- Corporations have been able to drastically lower their interest expense while at the same time raising increasing aggregate debt levels
- Corporations have been able to borrow at will to buy back their stock
- Individuals and institutions have used excessive margin debt to leverage up their investments
- Private and public consumption as a result of debt has greatly benefited earnings

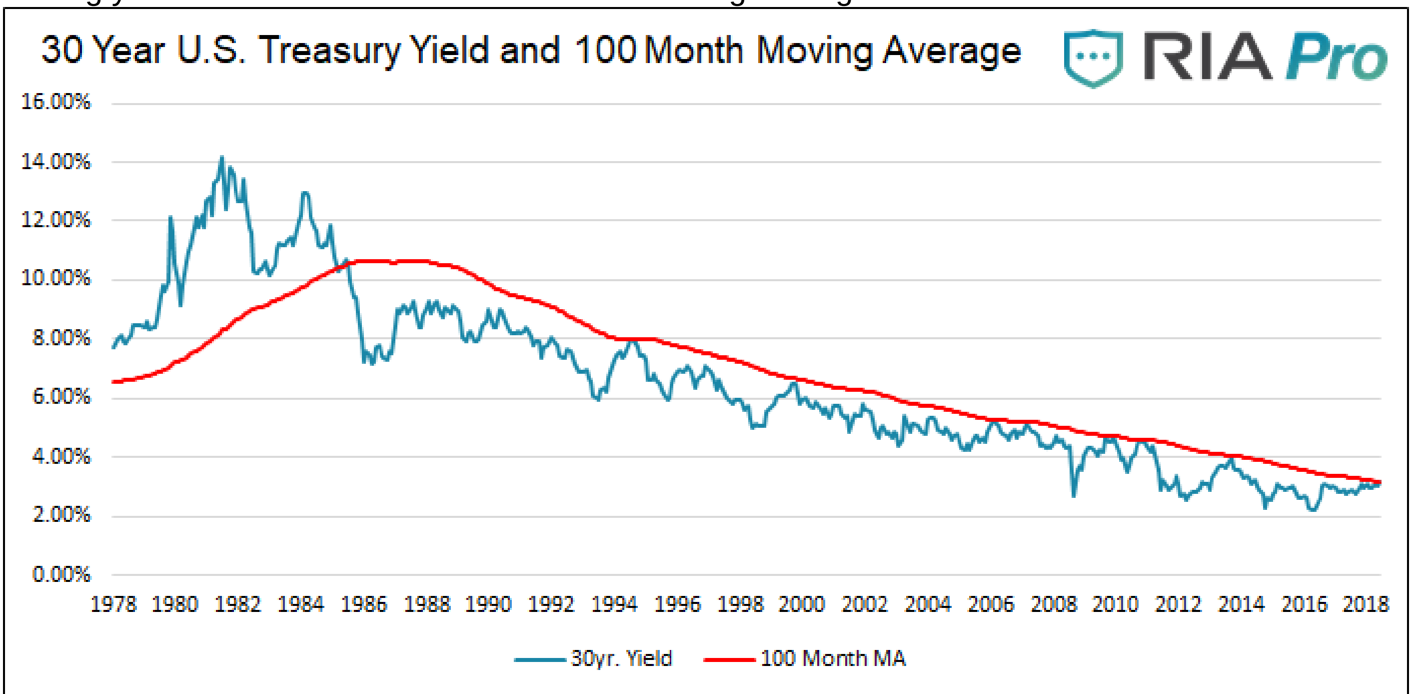
There are a variety of questions vital to investors. Among these are the following:

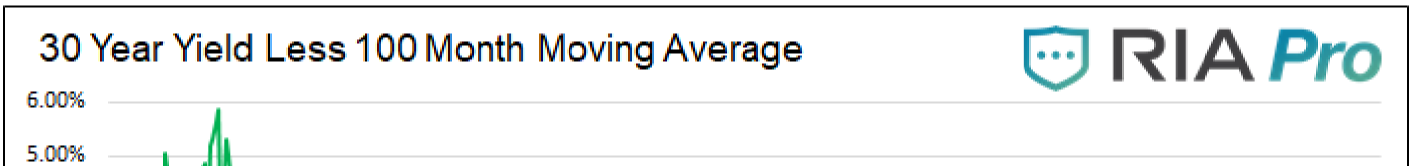
- Can rates continually keep going lower?
- Can low interest rates be sustained indefinitely?
- Can individuals, corporations and the government continue to endlessly accumulate debt with no consequence?

We firmly believe the answer to all of these questions is no. Even with lower rates the burden of debt will become too overwhelming and force various forms of default. That said we are fairly certain the Federal Reserve will do everything in their power to keep rates as low as they can and try to avoid the inevitable.

Chart of the Decade

While this long game plays out we must carefully watch the amount of debt outstanding and more importantly the level of interest rates. Of particular current interest is the long term charts below. The first graph is the monthly closing price of the 30 year U.S. Treasury bond and its 100 month moving average. The six labeled data points show the times when yields came close to breaching the 100 month moving average but were rebuffed. The second graph compares the monthly closing yield on the bond with the 100 month moving average.





Since October of 1985 the yield on the bond has never been above the moving average on a monthly closing basis. That is until Friday, September 29th, when the closing 30 -year yield on the U.S. Treasury bond was 3.197% and the 100 month moving average was 3.160%. As shown on the second graph, this is the first time the moving average has failed as a point of resistance in over 30 years. A few basis points is cause for concern but not yet a technical break in our opinion. Despite breaching it by only 3.70 basis points we think it is quite possible that yields turn lower and prove the moving average as valid resistance. •We emphasize caution however with this view, if yields are truly breaking out to the upside, investors of bonds and most other asset classes should be on alert.

Trade Idea

From a trading perspective, the current set-up in the 30-year bond offers a favorable risk/return construct. Taking a long position in the bond with a tight stop loss level, limits risk and allows for upside if yields bounce off of the resistance line. The table below provides three and six month total return figures for the six instances labeled in the graph above. As shown all six instances provided

RIA Pro	3 Month Total Return	6 Month Total Return
November 1994	12.15%	29.43%
January 2000	11.86%	17.02%
May 2006	7.67%	15.10%
March 2010	16.77%	22.25%
January 2011	4.34%	10.73%
December 2013	8.79%	14.10%
Average	10.26%	18.11%

urther, at any point during the six periods ayments.

The trade can be executed using the 30-year U.S. Treasury bond, 30-year U.S. Treasury bond futures or iShares Barclays 20+ Year U.S. Treasury Bond ETF (TLT). We recommend a stop loss of ten basis points of yield which would result in a possible loss of approximately 1.95% less any coupon earned during the holding period. If you are using TLT to execute this trade, 10 basis points is equal to approximately 2 points based on the current price of 117.38 and a duration of 17 years for the ETF.