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Dear Investor,

I've never imagined having too much money! I always thought more was better. But could there be a time when more money isn't necessarily good?

Of course, I'm not speaking about me personally…I should be so lucky! However, the world seems to be getting older, wealthier and smaller. Federal Reserve Chairman, Alan Greenspan, speaks of a "conundrum" in regard to interest rates here in the US. He's perplexed that as the Fed has raised short-term interest rates, long-term interest rates (like those used to finance homes) have actually fallen. It's these lower long-term interest rates that are believed to be one of the reasons real estate values are enjoying significant increases in the US and around the world, leading many to believe that a "bubble" in real estate is brewing.

The population is getting older…and seeking to secure a sound retirement. Few have forgotten the double-digit market declines experienced in 2000, 2001 and 2002. Money is accumulating all over the world. Both foreign and domestic companies are reporting record profits but aren't doing much investing and are awash in cash. The International Monetary Fund estimates that the worldwide savings rate for 2005 will be the highest rate seen in 20 years. Indeed, the world is getting wealthier. While US citizens are saving at record low rates, US Treasury Bills seem to be the investment choice of foreigners. As the world gets smaller foreign investors have been pouring lots of money into long-term US Treasuries, which has kept interest rates unusually low (the conundrum) at least for the time being.

Things don't go on forever, though. Eventually, long-term rates will adjust back to historical norms (likely rising) and when they do it could affect the real estate markets negatively. In the meantime, the US economy seems sound. While the first half of the year was negative for many of the market indices there are a lot of good things happening. Growth in the US economy is running at 3.8%, higher than the 40-year average of 3.3%. The unemployment rate is currently at 4.9% well below the 40-year average of 5.9%. Corporate profits are rising at high single-digit rates, albeit not as fast as in the past couple of years, but healthy none-the-less. Inflation seems contained and interest rates are moderate.

One might ask then, if the future looks bright, why are returns low for both stocks and bonds so far this year? Perhaps there is too much money! In regard to bonds it is typical for older investors to adjust portfolios to more fixed/conservative investments for steady income and less risk. Adding to investors' appetite for bonds is the generally poor performance of stocks over the past five years. Thus, many individual and foreign investors are buying US Treasury bonds in large quantities as they offer higher and generally more conservative returns. Yields may turn out to be lower than historical averages as too much money forces interest rates down. At some point though, as history validates, it is probable that money will begin a migration from bonds (as rates become too low for investors) into stocks, where prices and opportunities may seem more attractive.