

# EMERSON LETTER™

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## **Addicted to Debt**

We are addicted to debt. We live in a make-believe world, pretending that there are no consequences to living beyond our means. We have become a nation of borrowers instead of savers; a nation of debtors instead of creditors. This addiction has resulted in the erosion of our cultural life. Just as with alcoholism, the addiction to debt has significantly undermined the stability of our families, our spirituality and peace of mind. Our government encourages this addiction by telling its citizens to spend, borrow, and buy lottery tickets. The recent financial crises demonstrate that this debt binge must end.

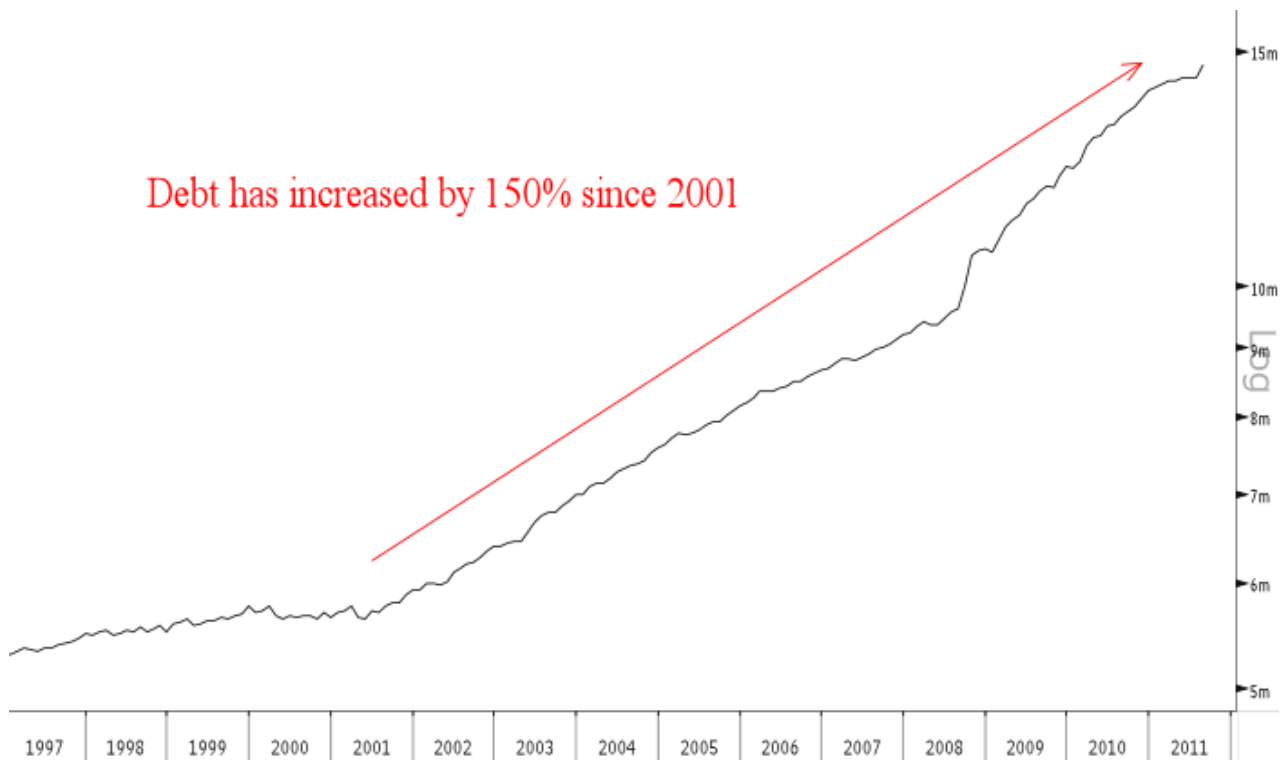
During the past three decades, our government's solution to each financial crisis has been to create more debt by lowering interest rates, and to increase the ease and availability of money. Because previous interventions have generally stabilized financial markets, our political and financial leaders believe that this same prescription is the answer. Unfortunately, we have now arrived at a point where the creation of incremental debt is no longer producing the desired effect on our already heavily indebted nation. We need to address this "tsunami" of debt or spiral into financial chaos.

The current deleveraging process is painful, but this withdrawal is necessary in order to achieve true economic health. Our belief that debt is a cure-all elixir must end. We have deluded ourselves into believing that easy money is the solution to every hiccup in asset prices. Our national income simply cannot sustain current and future debt in the financial system (see attached charts). Unlike Alice in Wonderland, this is not just a bad dream from which we will one day wake-up without real life consequences.

Respectfully yours,

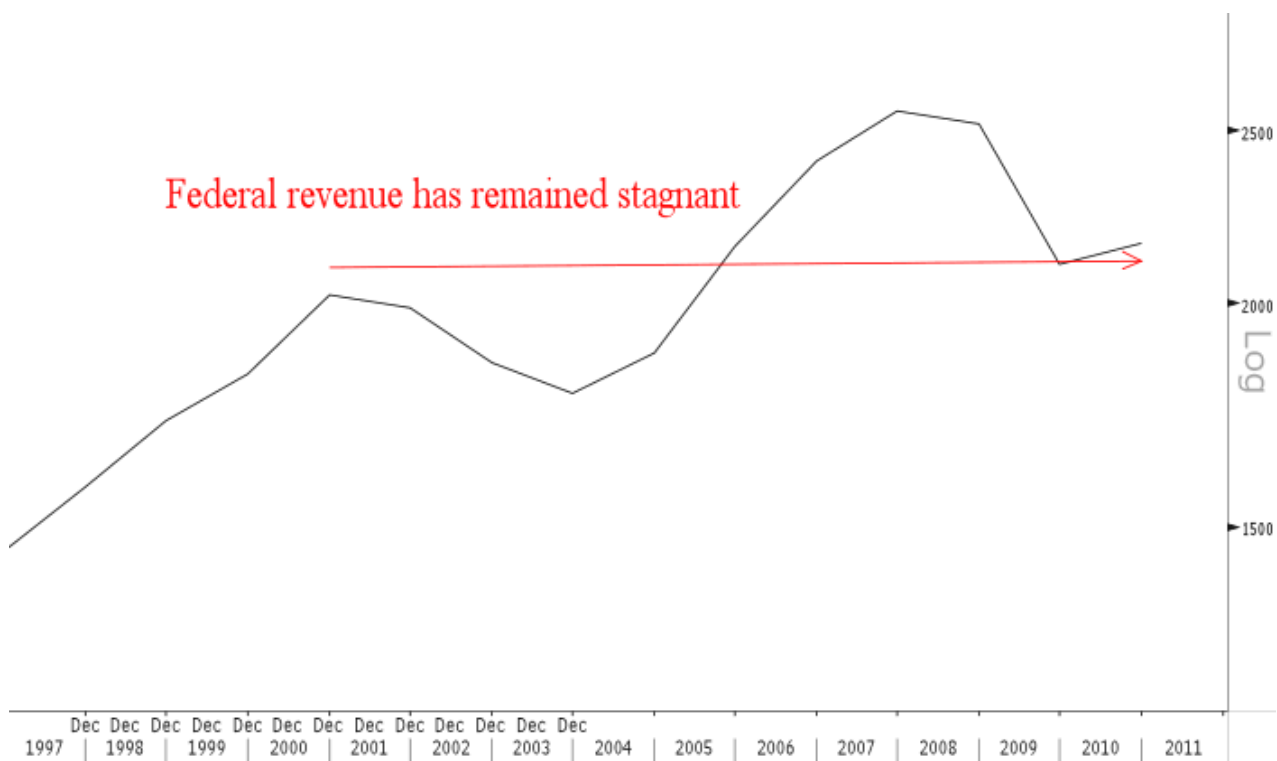
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## Exhibit 1: Total US Public Debt Outstanding



Source: Bloomberg

## Exhibit 2: US Treasury Federal Revenue



Source: Bloomberg

### Exhibit 3: US Federal Budget Yearly Interest Expense



Source: Bloomberg

### Exhibit 4: US Treasury 5-year Note



Source: Bloomberg

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