Buffett echoes LaRouche's advice

by Marcia Merry Baker

During the week of Sept. 15, the financial press featured coverage of recent moves by billionaire Warren Buffett, to get out of stocks, and into Treasury bonds. For example, according to the Sept. 16 *Wall Street Journal-Europe,* over the previous five weeks, acting quietly through various Wall Street bond brokers to conceal his move, Buffett, owner of the investment fund Berkshire Hathaway (which holds stocks and bonds valued at $34 billion), took $2 billion out, to buy U.S. government zero-coupon bonds of 10- to 30-year or longer maturity, whose full face value at maturity is estimated at about $10 billion.

This is a big deal: It involves a famous guru of how-to-play-the-stock-market, leaving the markets. The London *Times* of Sept. 16 wrote, "Warren Buffett, one of America's best-known investors and wealthiest men, has bought bonds worth $10 billion (£6.25 billion) in a move seen by Wall Street as an early warning of a stock market crash. The investment guru, known as the Sage of Omaha, is believed to have sold part of his $34 billion share portfolio to pay for the bonds. It emerged yesterday that Mr. Buffett's Berkshire Hathaway fund has been buying risky zero-coupon bonds with a face value of $10 billion at a cost of $2 billion over a five-week period ending last week."

(A zero-coupon Treasury bond offers no annual interest rate coupon, only the chance for capital gain on the bond's price at maturity. Because the income earnings of a normal bond are absent, the purchase price is accordingly far cheaper, allowing Buffett to buy $10 billion maturity-value bonds for only $2 billion. This is highly leveraged, and amounts to a relatively cheap insurance policy for Buffett, against the occurrence of a 20% stock crash.)

What LaRouche said

Buffett's reported stealth moves are in the direction of the advice given by Lyndon LaRouche, in an interview on Feb. 5. Speaking to "EIR Talks," he said that staying in the stock market meant slaughter. He advised, get out; go to Treasury bonds, go to gold, and fight for a new financial system to restore the economy:

"The only thing I can say, is that the persons—and there are about 40 million Americans, I think, who are exposed to this, who are betting that they have a pension, and a future invested in mutual funds, onto the stock market, or some plan of that sort—if they stay, they're going to be slaughtered. They'll lose everything.

"Now, there are some people who say, 'Well, tell me what time to get out?' And, people are buying these reports which tell them which way to get out of this stock today, and that one tomorrow, and get into this one, because of this up and down volatility. And, this is going to kill them. . . .

"Sure, Treasuries don't yield as much, but you've got one advantage with Treasuries: The government has agreed to back them up, and you've got something. Whereas, on these indexes, these futures, these options, when that market goes, you've got less than nothing. And, many of you have got life savings in there. Don't keep it there. Don't take the chance. Sure, somebody else may make a lot of money in the short run, maybe they can afford to take the risk. Can you?"

A sign of the times

Warren Buffett sneaking out of the stock market is just the most conspicuous case of a general trend. For example, the results of the latest Merrill Lynch monthly survey of mutual fund managers (covering August, released Sept. 8), reported that the "crashmeisters" are making moves out of stocks, and into government bonds, both in the United States and Britain. Merrill Lynch interviews 259 institutions, managing funds worth $5.55 trillion internationally. The survey of 41 U.S. institutions managing funds worth $1.88 trillion, showed that interest in Treasuries was strong, with buyers outnumbering sellers by 20%. These figures are the highest since December 1994.

What does this signal? LaRouche commented on Sept. 16, "The case of Warren Buffett is the most conspicuously featured, because they're talking about amounts of $10 billion, and of course there are relatively few people who can move $10 billion of personal assets around. But, it has become a pattern in the recent weeks, of key figures, financial advisers, prominent figures saying: Move your money out of stocks, and mutual funds, and so forth—derivatives, of course, and into things like U.S. Treasuries and ownership of gold—these are the two recommendations. The same ones I made last spring. This signals the fact—two things: First of all, that generally, among leading circles, all of those who, in the past two years, would deny, resist—up until late spring, this year—would resist my forecast that this was on the way, now agree it *is* under way, and now they're saying, 'Get out of the stock market, get out of mutual funds, get out of derivatives.'

"It's a sign of the times, and one must understand, many things that happen on this planet, as resulting both directly from the fact that the present international financial and monetary system, as an interrelated international system, is now in a process of crisis, headed toward disintegration, through a series of earthquake-like shocks over the coming period. We're expecting one after Sept. 30, in October, or something like that, on the way. But, it's already happening. It's not something—it's not a future event. It's an ongoing event."