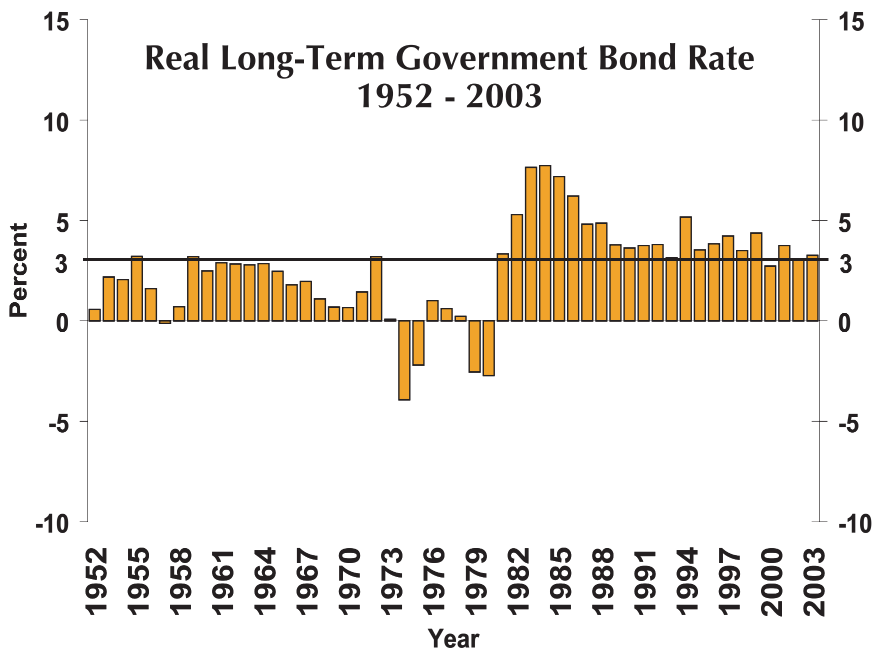
When you adjust for inflation, Treasury Bonds look like Chart 12.

Chart 12



You'll notice on Chart 12 we've drawn a line at three percent. Normally, historically, Treasury Bonds yield 3% over inflation. When interest rates are 3% above inflation, they are fairly priced and you get the coupon. From 1974 to 1981, interest rates were unusually low relative to inflation because Grandma feared Depression and was willing to lend her money cheaply for a "guarantee." From 1982 to 1989, interest rates were unusually high because my brother, the borrower, was willing to pay 14% on his mortgage. This meant that Mom, the lender, could get 11% on her money market fund. (The bank maintains a 3% spread regardless of rate.)

This chart is all you've had to know to make money, or avoid losing money, in bonds for the last fifty years.