

In 1981 my brother, Rod, bought a house with a 14% mortgage. I said, "Rod, that's high." He said, "Don't worry about it. Inflation will go up and take care of me. The price of the house will go up. I'm not worried about it." Think about that. My father feared a 4½% mortgage. My brother did not fear a 14% mortgage. This is a complete reversal of attitude, because of a change in the economic climate.

Chart 5

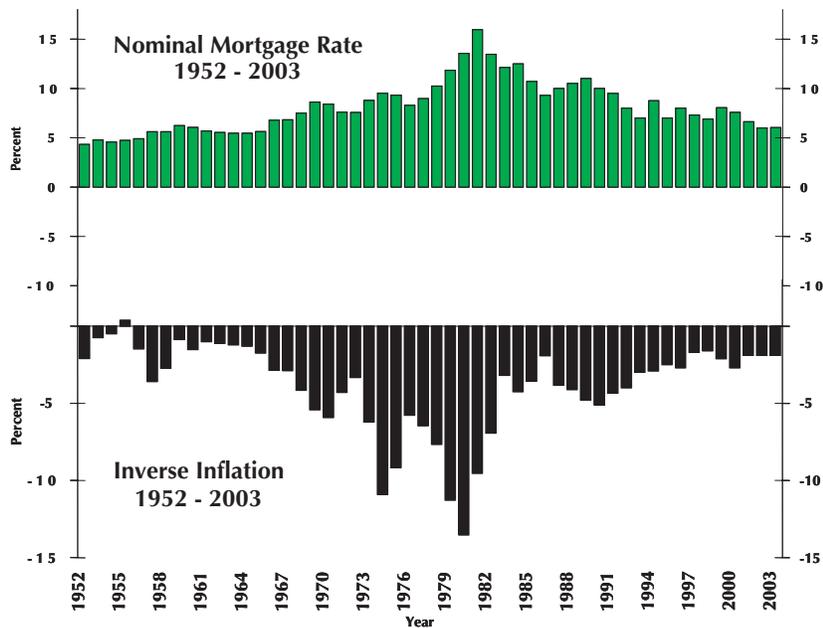


Chart 5 is simply the nominal mortgage rate plotted along with the inverse of inflation. At first glance these charts look a whole lot alike. But, in fact, inflation ran up long before mortgage rates. Then, in the 1980s, inflation ran down quickly and mortgage rates came down gradually. All through the 1970s people said, "Yes, inflation is up, but it will come back down." All through the 1980s people said, "Yes, inflation is down, but it will go back up." There was a huge lag in perception behind reality. Some folks like to say that Wall Street anticipates the future, six months out. And it does, on some things like earnings. But it was a decade late on changes in inflation — changes in the value of money. Perception of inflation, first up and then down, lagged reality by a decade. Those lags can make you (or cost you) an awful lot of money.