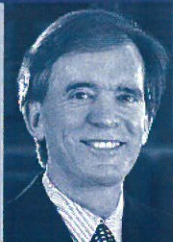


Bill  
Gross



# Investment Outlook

P I M C O

June 2010

## Two Will Get You Three (or) Three Will Get You Two

*You load sixteen tons, what do you get?  
Another day older and deeper in debt.  
Saint Peter, don't you call me 'cause I can't go;  
I owe my soul to the company store.*

– Tennessee Ernie Ford

Debt will get you in trouble – on both sides of the dollar bill as Shakespeare wisely counseled long ago: Neither a lender nor a borrower be. That probably seems like a strange admonition coming from a guy who helps to lend \$1 trillion of it – and I suppose it is. But there was a time back in 1968 when lending got me in lots of trouble – deep doo-doo, to tell you the truth – and I've regretted it ever since. I was a Naval officer back then, sailing between the Mekong Delta and Manila Bay. Strangely enough, it was in the Philippines, not Vietnam, where I lost my moral compass and ran aground. I started a shipboard replica of a "payday" lending company operating under the principle of "two will get you three." Sailors in port were always short of cash and yours truly – engaged to be married and operating under a self-imposed one-beer, nine-o'clock curfew – was more

than willing to extend them a hand. The "two gets you three" scheme sounded harmless enough, because, heck, what's a buck between friends when you're about to hit the beach and party hearty! Still, as the "payday" characterization connotes, the money was due only a few weeks down the road when we were back at sea and receivables could easily be collected. And the annualized yield, as most of us investor types can easily calculate, was well in excess of 1,000% annualized. Well, there's usury and there's grand larceny, and my payday-hayday scheme was clearly in the latter category. The amounts were small – paychecks were only a few hundred dollars – but 200 compounded into 300, which turned into 450, 675, 1,000 – well, you get the picture. It didn't take too many ports of call before Uncle Sam's next payday became the property of Uncle Bill, and I became