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Zombie-like economy won't last forever

By: Robert Smith in Financial Focus June 3, 2013 2:44 pm


Robert Smith

"Fed, China sink Japan stocks."

"Global manufacturing weak."

"Sales force guidance weak."

"Global stock slide points to addiction to easy-money QE."

And that's just a day's worth of headlines from the financial press. Truly, our econo walking dead: something not quite alive yet not wholly dead, and animated by forces beyond our contro can this zombification last?

Perhaps an even better metaphor is "junkie" – an economy so addicted to monetary stimulus, it can't fu without it. The stock market in particular seems to have an insatiable craving for more, cheaper money. away and down she goes.

However, like any other addict, the longer you're hooked, the cheaper the thrill. First it feels really go lots of fun. Then the highs aren't quite as intense and more frequent, bigger fixes are needed. Finally, out and the junk no longer is affordable. It's withdrawal time, and withdrawals are long and hard.

So Mr. Bernanke, now that you've got the economy hooked, what are ya gonna do? The last time I check are no financial methadone clinics, no place an economy can go to get its fake fix. I'd say the Fed has pa itself into a corner. There is no painless way off the monetary dope.

I will, however, give the devil his due. A year or two of easy money post-recession was probably the righ medicine. Prime the pump a bit to get things rolling again. Fast forward five years and there is still no pc at the end of the economic rainbow. That makes one think.

It's logical to assume that the longer the Fed must maintain the fiction/illusion of prosperity through inf prices (please read stock, bond and residential housing prices), the less likely the reality of prosperity is think even an institution as august as the Fed is subject to the law of diminishing returns (the tendency continuing application of effort or skill toward a particular project or goal to decline in effectiveness af certain level of result has been reached).

Andrew Bosomworth, managing director at PIMCO, stated, "Hyperactive monetary policy has caused pric stocks and bonds to rise about 8 percent per year since 2008, twice the rate of global gross domestic pro Does anyone really think this can last?

A reasonable person must conclude that stock and bond market rallies are nothing more than a central-b construct. As such, they are artifice and will not last. Stock gurus say the market is "jittery;" I say it's fa

So, how long will this chimera last? Bill Gross at PIMCO, a man worth listening to, seems to think anywhe to 24 months. By this time, markets will begin to divine that the Fed has no real end game in place and w pricing in the inevitability of higher rates.

However, in the interim, asset prices will remain grossly distorted - hence subject rapid and violent corr such, there may no longer be such a thing as a safe haven in today's markets. According to Paul Singer o Management, "that's one of the sad elements of (today's market) distortion."

In the interim, while we wait for the inevitable correction to occur, the Visionary in Chief (remember, h detail guy) wants to gut municipal finances by imposing a federal tax on muni-bond income (read Obama administration's 2013 budget). Now that's reassuring.

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