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Oregon's Building Connections

Between the devil and the deep blue sea

By: Robert Smith in Financial Focus August 5, 2013 10:40 am

Fed Chairman Ben Bernanke and his minions, after watching global stock and bond mar following his remarks about the mere possibility of monetary tightening, are backpedal as they can. This of and by itself should be disconcerting to investors. It shows more cl anything else how insulated from reality our policy makers really are.

It reminds me of Hitler in his bunker, moving phantom armies about on a map while So rain down. Anyone who spends anytime on the street knows the economy can't get along without stimul Fed. Cheap money and a ZIRP (zero interest-rate policy) are the necessary props for the stock market. A market is Washington's facade of prosperity.

The obvious fact is that quantitative easing is simply not filtering down to the mainstream economy. Oba has done nothing to increase our anemic growth rate, which remains mired in the 1-2 percent range.

Instead of creating more, high-paying, full-time jobs, the flow of newly minted money from the Fed imn trickles up to the top echelons of the financial establishment, the banks and the brokerage houses. This them to bid stock prices even higher as the public looks on in amazement.

With Bernanke's foot on the gas and Obama's on the economy's throat, how long can this artifice last? A investors remain hypnotized, I guess. Like a cobra slowly rising from a fakir's basket, the higher it gets, mesmerizing it becomes. However, sooner or later investors will be bitten and the spell will be broken.

When this occurs, investors' focus will shift to the reality of our near zero economic growth rate and mi creation. They will then realize that the Fed's ability and desire to raise interest rates is zero. They are liquidity trap. In order to revive the economy, they opened the monetary floodgates. To keep it from ta again, they must now keep them open.

So, for income investors, the search for yield is not even close to over. What you see is what you get. Tl near ZIRP remains anchored firmly in place. Short-term interest rates, money market rates and savings r remain close to zero. Bond investors will continue to stretch for yield. A good strategy here may be bler shorter term investment grade bonds with higher yielding corporate issues. In this way, investors gain yi still managing interest rate volatility.

Income investors will also see a lot more of alternative assets in the near future. On Sept. 23, 2013, adv Reg. D offerings will become legal. On July 10, the SEC commissioners voted 4-1 to remove the ban on a private securities offerings to the general public. This ban has been in place since 1933.

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