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# 'No direction home' for Federal Reserve

By: Robert Smith in Financial Focus November 4, 2013 1:15 pm

Robert Smith

I thought it apropos to use the line from Bob Dylan's famous song "Like a Rolling Stoı up the Fed's current predicament.

After nearly five years of unprecedented monetary stimulus (QE1, QE2, QE3 and nov infinity) the never robust economic "recovery" appears to be slowing. Housing fervc cooling, job creation remains anemic and consumer confidence is eroding.

It should be apparent to all that the economy can't stand on its own. As I mentioned month, it still needs monetary crutches. Truly, the Fed has "no direction home."

This becomes patently obvious with the nomination of Janet Yellen as Ben Bernanke's successor. Acolyt strong a word to use when describing Yellen's relationship with the current Fed chairman. So, folks who big fans of Bernanke's Fed the past seven and a half years probably will like a Yellen-led central bank ev

Like her current boss and mentor, Yellen is a Keynesian. Keynesian economics holds that private-sector often lead to inefficient macroeconomic outcomes. Hence, it is the responsibility of that supremely effi entity known as government (Obamacare, anyone?) to intervene in the economy to stimulate aggregate (total spending in the economy). This is particularly true during recessions. Hence, the controversial pol "quantitative easing" (or QE), which the Fed has pursued since 2008.

However, by vastly increasing the money supply over the past five years, the Fed could very possibly be stage for future inflation. In so doing, Bernanke and Yellen appear to be replaying the 1970s stagflationa

The last time around, it took Lyndon Johnson five years of spending on "The Great Society" and his "wa poverty" to stoke the inflationary fires. So far, we are right on script. Five years of quantitative easing l us exactly the same results: a stagnant economy and high unemployment.

So far, these policies have not driven inflation higher, given the counterbalancing effects of weak loan and high unemployment. However, the day will come when loan demand returns, interest rates move hi the specter of inflation returns.

This outcome may not be of immediate concern to you, but it begs the question of how asset classes per this type of environment. In the short run, stocks generally could do well based on more monetary easin there is no proven connection between QE and economic growth, Yellen could just keep printing money indefinitely without getting the results she seeks. However, investors need to be alert to the real possib higher stock prices in a flat-line economy may simply be the new Fed-inspired bubble.

Inflation may be slow to arrive; however, when it does, it will increase quickly (as in the late '70s and ea and be impossible to reverse without collapsing the economy. As before, this will result in a widespread to hard assets. Therefore, investors would be well advised to consider precious metals, energy, land, fir natural resources before the next big wave pushes their prices substantially higher.

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