

To QE infinity and beyond!

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Robert Smith

Janet “Lightyear” Yellen gives the market just what it wants: more stimulus! As she sailed through her Senate hearing, Yellen delivered dovish comments that strongly suggest the U.S. economy can count on more stimulus support (quantitative easing) for a longer time than anyone anticipated.

A detailed reading of her comments reveals that the Fed has “more work to do” to help the economy. Nowhere in any of her comments was there even a hint of “tapering.” Surprisingly, U.S. stock futures hit a record high following these comments.

For the record, Yellen said “you (do) not see stock prices in territory that suggests bubble-like conditions. I believe it was her predecessor and mentor Ben Bernanke who said exactly the same thing in front of the market bubble.

Because the Fed has an almost perfect record of being 100 percent wrong in terms of prognostications, it gives all investors pause. However, in all likelihood it won't. Asset bubbles are driven by emotions - greed is specific. And greed does not abate gradually. It is shattered by trauma and replaced by fear.

I fear that in the long run the current measures of asset purchases and artificially low interest rates are a temporary expedient, but the new direction of long-term Fed management of the economy. Fast forward and you have a Fed with a balance sheet of \$10 trillion in assets vs. a mere \$3 trillion today. Unwinding that in anything other than a catastrophic manner is next to impossible - even without the participation of other banks around the world.

With everyone else on board, a global unraveling similar to 1929 may be unavoidable. This is because each ultimately will act in its own rational self-interest, and depart from this course even if it is detrimental to general interest. When this happens, barriers go up and the downward spiral begins.

In the interim, retirees, pensioners and savers continue to be crushed. Current interest rates for many investments are below the inflation rate. This squeeze will only be exacerbated if policy makers follow the urgings to accept higher core inflation as the necessary prerequisite for promoting full employment. How do innocents preserve their wealth or maintain their lifestyle in the face of this onslaught? The simple answer: don't.

If this is really the case, why go down this path at all? In its simplest form, the Fed is little more than an all-powerful central planning agency staffed by unelected, unresponsive career government bureaucrats. I know history was taught (not relevant) in schools anymore, but communism failed precisely because centralized economic control doesn't work. Yet we see central banks around the world assuming an ever greater role in our affairs.

Strangely enough, even though these institutions and their staffers have a greater impact on financial markets than anything else, they are seldom held responsible for their misguided actions. They simply segue from the stage into genteel retirement where hagiographic biographies are written about them (think Alan Greenspan “Maestro”). In the meantime, taxpayers, retirees, pensioners and savers can go fish.

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