

## BAND-AIDS WON'T WORK

### WEB BUZZ 2011.01.18

As mentioned in prior writings, it appears as though the juice supplied by the Federal Reserve in their QE2 program has so excited the investment community that they are falling all over themselves buying commodities and equities. It isn't the \$600 billion that is necessarily going into these assets, but rather the continued expectation that the Fed will do whatever is necessary to keep the equity type markets afloat. This, in essence, puts a floor under the commodity and stock markets, *at least for now*.

While this is taking place, the following fundamental problems are not being solved:

1. China appears to be losing its battle against inflation, which might well result in a hard landing for their economy.
2. Europe has huge financial problems, which just might spread across the pond.
3. The U.S. remains in a deleveraging mode, which will result in slow to no growth.

By the way, did you notice that Japan and China have come to the rescue of Europe through buying their sovereign debt? You know why? Europe is too big to fail, as is the U.S. They are too big to fail and we are too bigger to fail. This amounts to vendor financing. Japan and China rely on the two of us to buy most of their exports. However, this does not solve Europe's problems or ours for that matter.

In the meantime, higher oil and food prices are acting as a tax increase, which will offset a good portion of the tax policies initiated by the lame duck session of congress. Main Street thus remains under severe economic pressure while Wall Street, being at the top of the food chain, basks in the sunshine. When Washington decides they can no longer afford to prop up the have-nots (you

and us) a new reality will set in concerning the financial markets. When might this occur? We wish we knew. Mid-year might be a reasonable answer, but surely by year end. In today's marketplace, a real income return of 4.5%, along with a possible additional 4.5% capital gain, is extremely exciting.

FYI - Here are the 10 largest holders of U.S. Debt as of 10/31/2010.

- China, mainland: \$906.8 billion
- Japan: \$877.4 billion
- United Kingdom: \$477.6 billion\*
- Oil exporters, which include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria: \$213.9 billion.
- Brazil: \$177.6 billion
- Hong Kong: \$139.2 billion
- Caribbean banking centers, which include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles and Panama: \$133.7 billion
- Russia: \$131.6 billion
- Taiwan: \$131.2 billion
- Canada: \$125.2 billion

\* UK figure may include government debt bought by other countries through London intermediaries

Source: Treasury Department