

Fannie at the Cliff's Edge

October 18, 2004

Fannie Mae is much in the news these days. As you may recall from our previous commentaries, we have been very critical of this Government Sponsored Entity. They (Fannie Mae and Freddie Mac), along with the Federal Reserve, are responsible for most of the damage done to this economy over the last 10 years. Although Fannie & Freddie were never formed to be a back up to the Federal Reserve System as a money creator, that's exactly what they have turned out to be. It's another example of unintended consequences, which plague the halls of Congress. Many have said what this country needs is a good 5 cent cigar, we say what we need is someone – anyone – in Washington, D.C. that has just a little bit of common sense.

Please note below the chart depicting new home sales since 1963. Can you answer the question posed on the right hand side of the chart? This is, of course, the work of the Federal Reserve from a macro standpoint and Fannie Mae from a micro standpoint. This entire move from 1991 through 2003 is due for a major correction. We urge all who will listen to step aside. The bubble in housing is even greater than that in the stock market. Look out below!

