

# HAVE GUN, BUT NO TRAVEL

## WEB BUZZ 2011.04.18

As the time is now running out on the Federal Reserve's QE2 program (6/30/11), we thought it might be worthwhile to review just how well it has helped the economy and financial markets. All in all at the 6/30/11 deadline, the Fed will have injected approximate \$2 trillion of liquidity into the system over the last two years. They did this first by buying more than \$1 trillion in mortgage-backed securities and another \$1 trillion in other securities, and now recently \$600 billion of U.S. Treasury securities.

Now just where does all the \$2 trillion go? What is the transmission system and how does it work? First of all, the securities are purchased primarily from the money center banks and the money ends up in their reserve position at the Federal Reserve. The idea was for the money center banks and their correspondent banks to use these reserves to make loans to the private sector, thereby expanding the economy. By the way, this is exactly what Japan has done over the last twenty years or so—with our suggestion.

### Report Card

1. Unemployment is up from 6.8% to 8.8% (really more than 8.8%, but we will call it that anyway).
2. The population ratio of those employed as a percentage of the total population dropped from 61.4% to 58.5%. About 3% less of the population is working.
3. Real income and wages have not increased for those that remain employed.
4. Real estate prices continue to decline. Residential prices are down another 9%, housing starts down 10%, and foreclosure filings have increased 23%.
5. The S&P 500 is up 48%, earnings per share are up 39%.

6. Gold has advanced 75% and many other commodities have doubled and then some.
7. Junk bonds and other lesser quality securities have moved up in price.

So where has the money gone? Primarily to a stock, commodity, and junk bond market bubble and little to none of it to the real economy where standards of living can increase.

#### Grades

1. Economy: D
2. Speculative securities: A
3. Conservative securities: C
4. Wall Street: A+
5. Main Street: F

As James Carville said during the oil spill last year, commenting on the state of affairs in Louisiana, “We dyin’ down here.” Our comment is that the real economy has joined Louisiana—we’re all dyin’ everywhere!

#### A Final Thought

Many are concerned that the bond king (Bill Gross) has sold his government securities and gone either short or to cash. Please take a look at the last time he did so at the end of 2010.



Adapted from pragcap.com