

## THE FED IS A DISASTER

### WEB BUZZ 2010.11.08

Let's reflect a bit on the 11/2/2010 mid-term elections as well as on the Fed's new liquidity move for the period ended 6/30/2011.

First of all - the elections. There is no question that the most left wing president this country has ever had has been check-mated right in his tracks. This is good news long term; however, we are not so certain about the next two years. The following is what we envision: (1) The tax cuts will be extended, perhaps with some modification. For example, the tax on the "rich," which is the hallmark of a left wing philosophy, may have some kind of negotiated in-between provision. The "rich," of course, are the job creators, thus there may be help for the unemployed here. (2) Regulation that increases costs may be thwarted somewhat. This should be a small plus. (3) Federal deficits should reduce somewhat. This may cause additional weakness in the economy short term, however, is bullish long term. (4) Probably the most hurtful thing will be that any stimulus now must come from the Fed rather than fiscal stimulus, which, in our mind, will be a detriment to profit margins. Thus private sector income will decline.

This then leads into a discussion of the 10/3/2010 Fed action to purchase an additional \$600 billion in treasury securities. The long end of the curve (the 30-year bond) was disappointed that only 10-20% of the funds will go to purchase bonds of that longer maturity. This means that the Fed, in essence, will be buying only the additional 30-year bonds that are presently to be offered over the next eight months. This, however, is not anything of long term consequence. What seems certain to occur are additional bubbles in high-yield junk bonds and commodities. This will create more leverage and speculation and will lower private sector profit margins as commodity prices, with the exception of food and energy, cannot be passed on to the retail buyer. The

increase in food and energy will act as a tax increase, which will further put pressure on an already over-indebted and unemployed consumer. Folks, it's a recipe for economic disaster.

The stock market is clearly in an upside panic state, not understanding that only trouble can result from the Fed's action. The Fed is the problem; the Fed is not the solution. Watch out below.