

THE FUTURE WITHOUT QE3

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We believe the Fed may have learned from their QE1 and QE2 (Quantitative Easing/stimulus/whatever the government is calling it these days) that what they hoped would happen did not, and did not in spades. First of all, their policy of zero percent interest rates has devastated the income of those who depend on their investments for living expenses. Then secondly, their QEs have driven commodity prices through the roof causing the cost of food and gasoline to new multi-year highs. All of this, mind you, when the unemployment rate is somewhere between 9% and 19%. Main Street is in a depression as the stimulus went to the benefit of dying institutions such as unions, possibly auto makers, and (gulp) maybe the general aviation industry. Would you not think a lesson has been learned by them by now?

If our assumption above is true, then the second half of 2011 will witness an economy without benefit of fiscal or monetary juice. This means in all probability negative GDP numbers until such time as the private sector can pick up the slack. We believe this is a necessary condition to a real economic recovery, as painful as it might be.

What are the odds of there not being a new QE3? We should know sometime around late summer. As mentioned previously, surely the Fed has learned its lesson that QEs will not lower long term interest rates, but rather continue to squeeze those of us without friends in high places. Of course, the final result of such misguided policies is riots in the streets à la Greece and the U.K.

We continue to believe we are in a multi-year slow to no growth economy, which should make one be very careful where one puts their funds.