

## **THE RECENT FED ANALYSIS IS A TEACHABLE MOMENT**

### **WEB BUZZ 2010.08.16**

Tuesday's (8/10/10) economic outlook by the Fed sent interesting shockwaves through the financial markets. The first reaction was a near one hundred point upward move in the Dow Jones Industrial Average, as well as a sharp increase in bond prices. Shortly thereafter, stock prices moved downward, and bonds lost most of their previous advance. At the close, therefore, stocks were down slightly and bonds were up just a bit.

What does all this tell us about the future? One is tempted to say nothing, as one day does not a trend make; however, it does appear to us that the long held position of stock buyers that this "recovery" is just a normal post WWII affair is beginning to wear thin. The facts are that we have been and are continuing to experience a balance sheet recession not unlike the 1930s. We are facing a low to no growth economy as far as one can see, and public policy could not be worse. Frankly, the \$62 billion stimulus package just signed makes us want to throw up. Again we ask, where does it say you can solve a debt problem with more debt?

You know, if the borrowing was done to increase the private sector, which provides the income for the public sector, it might help some. But when it goes to the public sector and the private sector is left to twist in the wind it makes things dramatically worse.

For those who will listen, please get your investment affairs in shape, and by that we mean own very few stocks and only high-quality bonds.