

## WILL THERE BE A QE3? WEB BUZZ 2011.06.13

First of all, what did QE2 do for us? As far as the real economy (Main Street) is concerned, it did nothing to help. As a matter of fact it did serious harm as the price of oil and food advanced due primarily to Wall Street speculation. Please note the following quotes from Howard Schultz, the founder of Starbucks:

“...(the rally is) not based on supply and demand.”

“Right now we are experiencing a very strange and almost inexplicable phenomenon in the commodities market. Without any real supply or demand issues we are witness to the fact that most agricultural food commodities are at record highs at once, and coffee is at a 34-year high.”

“Through financial speculation - hedge funds, index funds and other ways to manipulate the market - the commodities market is in a very unfortunate position. This has resulted in every coffee company having to pay extraordinarily high prices for coffee.”

“I don’t know the rules and regulations in the UK but unfortunately in the US you can’t identify who is buying the commodities. So there is no transparency. I just think it is [unfortunate that] at a time in the world where there is such concern over the economy, unemployment and the cost of food - not to mention the cost of oil - we could be in a position where we have inflationary prices on food not based on supply and demand. This is the first time in my 30-years of being in the coffee business where this exists...”

“I don’t think, by the way, that this is sustainable, however it is not a good situation for the consumer and I am not convinced that the farmers benefit from this.”

Main Street has been hurt on the cost side as well as the income side. As the Fed continues to hold short-term rates near 0% out to one year, where can the average Joe obtain any income on his savings? Well he can’t. He is being squeezed at both ends, plus the fact that millions are unemployed.  $0 \times 0 = 0$ . How is all this working out for you? Then to add insult to injury, every American is on the hook for over \$300,000 due to debts, Fed, State, private, and unfounded liabilities.

There will be no QE3, in our opinion, until things get seriously worse and unfortunately things getting worse may not be far off. When the markets wake up to what is really going on expect a complete reevaluation of financial assets - something like the following.

<b>Asset</b>	<b>Market Value</b>
High Quality Bonds	+
Low Quality Bonds	-
Common Stocks	-
Commodities	-

Other assets, such as real estate, will remain weak - actually weaker.

The story is that we are in for a very difficult time. Had we let the free market work in the past, it would not be so bad. But each “kick the can down the road” policy has made the payback much more severe. We say stop it now, so we can clear the decks. That and only that will allow our children and grandchildren to experience an upside that is sure to take place. Sure to take place, that is, if we can break up the unholy alliance of Washington and Wall Street.