

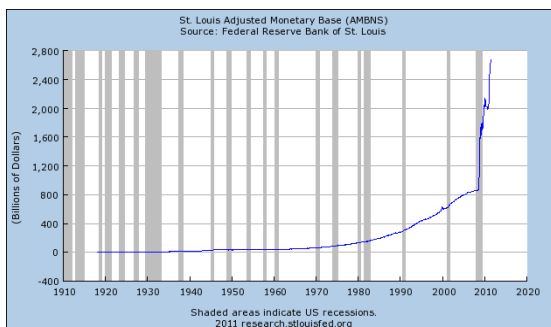
“EXTRA, EXTRA! READ ALL ABOUT IT!”

“Bernanke: Fed May Launch New Round of Stimulus”

After reading the headline above from CNN on Wednesday, July 13th I almost could not stop myself from laughing. As you may recall Hank Paulson, then United States Secretary of the Treasury made the claim in the fall of 2008 that if we didn't pass TARP (the Troubled Asset Relief Program) that the whole economy would collapse. And *after* they passed it what happened? The economy collapsed.

And how about the claim that *unless* the Federal Reserve implemented Quantitative Easing (QE – i.e. money printing) in 2009 that the rate of unemployment would go up? And by implementing these programs unemployment would be down below 7% by this time. But now after three rounds of QE you know what has happened. The unemployment rate is nowhere near where they claimed it would be. It's much higher!

So when I see the headline referenced above I just have to laugh. I envision the Fed thinking to itself, “*if at first you don't succeed, try, try again.*” Take a look at the following graph, courtesy of the St. Louis Federal Reserve (<http://research.stlouisfed.org>):



It took ninety-four years for the Fed's balance sheet to grow from zero to \$800 Billion (from 1913 to 2008) and in the past 3 years it has increased by an *additional* \$2 Trillion. Talk about a bubble. According to John Hussman of the Hussman Family of Mutual Funds, “*as of*

Wednesday, July 7, the Fed's consolidated balance sheet shows \$2.87 trillion in assets, versus \$51.7 billion in capital, for a leverage ratio that is now up to 55.6-to-1...and is far beyond where Bear Stearns, Lehman, Fannie Mae or Freddie Mac were at just prior to their respective insolvencies.” (www.hussmanfunds.com)

To illustrate how much just \$1 Trillion is let's use basketball star LeBron James. It is reported he earns over \$45 Million per year. How many years would he have to play basketball in order for him to earn \$1 Trillion? It would take **25,000** years.

Unfortunately, printing money does not bring prosperity. It simply *raises* the prices of everything already in existence by *devaluing* the buying power of the currency, albeit over time. So considering how much the Fed has already printed with little result to show for it, why would they think printing even more will help? Maybe it's for the simple reason that the Fed is like a carpenter with a hammer where everything looks like a nail. Because if the economy continues to worsen it will prove their policies are fruitless and all confidence and credibility in the Fed could evaporate. Sadly, that's the best thing long-term that can happen for the nations sake, but granted it wouldn't be without short-term pain.



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