

QE Perpetuity

As expected, the Federal Reserve embarked on QE3, or in plain English, buying bonds to force interest rates down even further into the future or perpetuity. Problem is, they added the phrase 'As Long As It Takes'. Dangerous stuff, in my humble opinion. This 'bazooka' approach confirms what I have been saying all along in that the Federal Reserve is scared ****less of deflation and they are pulling all the levers behind the curtain, ala 'The Wizard of Oz', in order to avoid just that. Fact is, the Fed cannot create demand and as a result is sowing the seeds for hyperinflation later in our lifetime. I say later, because as of today, interest rates will stay on the floor for a long time. Forget mid-2015 as the Fed recently stated. Hmmm, I seem to recall the same Fed said the end of 2014, not too long ago, so make up your mind. That is precisely the point, the Federal Reserve does not know!!! All the academics and all the president's men, can't get it right whether with pencil or pen. (Sorry, I needed something to rhyme) Simply put, the Federal Reserve is making it up as they go along, because the 'historical' or 'academic' precedent does not exist.

As a result, we are in not only uncharted territory, but extremely dangerous territory. The world is awash in liquidity from central banks across the globe, trying to extricate decades of profligate spending. So far, it is having little, if any effect. Ask yourself, what has changed in regards to the problems I stated in my prior newsletter, namely Europe, still a basket case, with no 'unified' path to anything; Wisconsin – Walker won, as I expected, but now a Dane County judge is "ruling" unconstitutional the very policies that helped turn a deficit into a surplus; Corporate earnings continue to defy a slowdown, thus an overall positive (China bears watching, however); Obamacare was affirmed by the Supreme Court, a net fiscal negative, starting in 2013, with a 3.8% investment surtax, not to mention full implementation in 2014 and a projected \$ 1.7 trillion loss over 10 years (which will grow to nearly \$ 2.0 trillion); finishing with our 'do-nothing' Congress, fiddling away while DC and the rest of America smolders. The fiscal cliff is coming and all we get is B as in B and S as in S. Wow, what a great scam. Get elected to Congress, House or Senate, get a nice salary, non-Obamacare health benefits, a defined benefit pension (Read: Guaranteed) and other perks, too numerous to mention. Where can I sign up?

BTW (By the way, for the uninitiated) my other 'notable' issues are still around, Iran, Public Sector Pensions and Budgets, Low Interest Rates, Housing and my sleeper, Deflation. The crystal ball is working pretty good this year. However, make no mistake, we have entered a very dangerous time regarding the investment climate and more specifically, your money. Stocks have been artificially buoyed by the actions of the Federal Reserve, anything with a "high" dividend yield has been or is getting bid up to asphyxiatic levels, but your savings earn a whopping donut. You do everything right, pay your bills on time, employ the concept of 'delayed gratification', everything a taxpaying American should do and this is your repayment, courtesy of the government. Frankly, a poke in the eye with a sharp stick would feel, slightly better.

I digress. What does it mean for you and your money? Judicious individual common and preferred stock selection, sprinkled in with extraordinary corporate and municipal bond additions and the ability to recognize and avoid the iceberg which sank the Titanic or more succinctly, your money. Now is the time to stick to quality, across all asset classes, as junk bonds

have been heinously overbid (Read, really risky), certificates of deposit are safe with no return and commodities will look cooked, if a global slowdown really materializes.

As stated before, our investment processes and disciplines remain steadfast (above average investment returns with below average risk) in the face of an ever challenging economic and investment environment. Our ability to anticipate and act, rather than accept and react, will hopefully continue to earn your commitment and trust.

All The Best...