

### **Gargantuan Fed Move:**

For some reason Buzz Lightyear's famous words: "TO INFINITY AND BEYOND" comes to mind when trying to sum up the latest Federal Reserve monetary policy. The new round of quantitative easing -QE3- is unprecedented both in size, scope and duration. The Fed has promised to buy \$40billion of Agency Mortgage-backed securities each month (this is in addition to the current purchase of \$40billion of US Treasuries) until there is a "substantial" improvement in the labor market. The Fed stated they will "continue to buy these securities (remain highly accommodative)...for a considerable time after the economic recovery strengthens." Several economist believe this means the Fed will continue to buy assets until full employment in the job market is on the horizon which they estimate will be at least two years from now, and implies a buying program totaling more than \$2 trillion. In addition to buying securities, the Fed has pledge to keep short-term rates at zero until mid-2015. According to the Fed, "these actions...should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative."

### **The New Federal Reserve:**

**How does lowering long-term rates and keeping short term rates low create more jobs?** Rates have already been exceptionally low for the last 4yrs and the unemployment rate has barely budged. Job creation comes from businesses who are confident about investing in the future. This confidence is a result of a business friendly investment climate spawn out of minimal regulation, visibility of government policy, and stability in global growth. Unfortunately, monetary policy can do little in this regard, but is is the role and responsibility of fiscal policy (politicians) to accomplish. For now, the Fed is successful in kicking the can down the road, taking the pressure off of Washington to address the fundamental problems.

**Bottom Line:** We are in uncharted waters. With the Fed pledging to give the market the largest injection ever seen, this move is certainly bullish in the sense that pouring more money into the system will encourage people to take more risk and push prices higher. Financial asset prices for stocks, gold, oil... basically everything except the dollar "should" increase. Longer term, what are the effects? How will the Fed ever unwind the action? Nobody knows.

**Investment Strategy:** With the enormous support by central banks around the globe to both supply liquidity and push interest rates down, market corrections are likely to be brief and shallow and money will continue to grudgingly flow to risk assets (barring a Geo-political surprise). Thus, portfolio positions have been increased slightly in funds with exposure to gold, real estate, mid-cap stocks, and high yield bonds.

As always, please contact me with any questions or concerns.