

Market Outlook:

Stop Yellen at me

For those of us that have been around for awhile, we have come to recognize that each Federal Reserve Board Chairman has had a unique way of speaking and a unique personality. Remember the "Volcker Rules"? How about "Greenspan-speak"? Well, last week we had a chance to take a measure of the person, and her language, who currently presides over monetary policy, Fed Chair Janet Yellen. And while a snapshot is not necessarily a truism of the embodiment of the whole, there were a few takeaways, not the least of which was the market's (once again) overreaction to what was being said.

Really, how many of us don't already know that interest rates *will* rise at some point, and that monetary policy cannot be "acomodative" forever? Quite simply, that's all she affirmed, but the markets are/were looking for a reason to sell off and she gave them one (two?) to run with.

It was interesting, though, that Ms. Yellen accentuated the point that policy changes were not *imminent*, simply *inevitable*. If nothing were to occur from the Fed in the next twelve months, that's exactly as she planned it.

In many instances in the past, not only did the Fed more swiftly recede into the background after inserting itself in matters best left to Congress and fiscal policy-making, but the economy was better off following a recession than we seemingly are today. Improvements in factors such as "easy money", "low interest rates", and "jobs' growth" should have accelerated our prospects much more quickly than has actually occurred. **Without consumer supports (wage growth, expanded savings, job stability), consistent acceleration in the economy is wishful thinking.**

Expansion/contraction is part of a definitional secular life-cycle of any economy. The exacerbation of highs versus lows of the past decade, however, is a vicious extrapolation upon that theory, taking us on a manic ride of greed and excess, followed by an anchor-like drag on our psyche and financial well-being.

Recessions are the unfortunate residue of the cornucopia produced from the "left side of the parabola". The excesses are unwound and the economy reboots and recalibrates. But the lessons of history are not being repeated here because the Fed and our Congress are dragging their heels (no, *digging in* their heels) in providing the remediation we desperately need. Expenditure cuts and austerity are necessary, but only if the spigot is open for capital flow as a result.

Political backbone that enables access and open competition for largesse to everyone is critical, because, without it, the marketplace becomes a closed shop. Some might incorrectly infer that means a "welfare state" or unlimited "giveaways". No, rather, the system always works best when the *opportunity* to play in the game is fair and equal. However one uses that opportunity is simply a matter of free will, motivation, and effort.

Right now, the impulse to hoard money is greater than the impulse to spend or share. The consequence is that money flow dries up...even if capital is readily plentiful. Thus, competition becomes devalued and so too does the currency. *"You can lead a horse to water but you can't make him spend."* I've written that phrase for over thirty years, and it has never been more true than today.

There are several possible outcomes from last week's Fed news conference:

If the economy improves, as indeed it has already, it propels the financial markets along with it.

If the economy recedes because business and consumers refuse to "play in the game", we re-enter a period of slow growth and financial stagnation.

If someone, or something, intercedes and addresses significant, sustainable demographics (alternative energy, biosciences, ecology, infrastructure) then spending will follow and galvanize not only our imagination, but our capital resources as well.

It's like a game of chicken: the first one to breach the chasm will be the winner, and, in turn, public and private enterprises will win, too.

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