ASK THE ORDINARY MILLIONAIRE
June 1, 2012

QUESTION:

Dick - was kind of wondering if you have any recent info on whether the velocity of money is stagnating. I see things the way you do and agree this is a key indicator that I rarely see mentioned within the financial media. Hope you will contact me if you are in the DFW area.
Mike

ANSWER:

Hi Mike....
The Adjusted Monetary Base peaked out at the end of February. Since then, it has dropped about 4%. During that time the M-1 has grown 1.3%. What that says is that the multiplier is increasing, and the Fed is getting some leveraged growth from bank lending. This is what the Fed has hoped for but does not have any real control over. Only the bankers can lend their money out!

That being said, even though the US economy has been growing and appears to have been gaining some momentum, small as that momentum is, the recessionary decline in Europe will inevitably affect the global economy and that potential will dampen the momentum that has developed in the US. Europe's problems will drag that economy down, and the countries that are most susceptible to recession/depression are Greece, Spain, Portugal, and Italy. Spain and Italy are the most difficult countries to support because of the size of their economies and their debt levels. All of Europe is going to have to come together in order to achieve long term success for the Union and its survival. Today, there is a relatively high probability that one or more of these countries will withdraw from the European Union, and that process could cause severe global liquidity problems.

I guess that what I am suggesting is that we are not entirely in control of our own destiny right now. If we don't get a pretty good recovery in the markets in the next week or so, I will probably recommend getting out of the stock market. Technically, the important area for the S&P Index is the 1290 level. We broke through that level with some authority today! Hopefully, next week will give us a decent chance to move back above that level.

Our portfolios are generally designed for a volatility beta = 0.2 to 0.3 when the market goes down, so they are pretty well dampened for a market downturn. Even then, however, we will want to stand aside if our model says it is recommended.

- Dick