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Serving Your Personal Investment Needs Since 2003

INTERESTING HAPPENINGS TO TAKE NOTE OF…

Tuesday, September 27, 2011

There is something very interesting happening within the US domestic economy that has been a very long time in coming. For those of you who are monetarists – as is this writer – you follow those economic data components available from the St. Louis Federal Reserve that describe what is happening inside M-1 and M-2. Let's focus on M-1 (M-2 is being distorted by cross-border cash/currency movements, primarily out of European banks, and thus, must be discounted as a forward guide to longer term US economic growth).

From January, thru early July, 2011, the Fed has been pumping money into the system, increasing the adjusted monetary base rapidly – adding about 38% to the Base during that period. During that same period, M-1 has risen 8.2%! This is the "pushing against a string" concept that limits the effectiveness of Federal Reserve Bank options.

Then, since early July, 2011, the Adjusted Monetary Base has been shrinking – down 2% to date.
What is most interesting is that M-1 continues to increase! From July, until early September, M-1 has increased over 9.5%.

What this says is that, at long last, bank lending activity is growing on its own momentum, and we are finally beginning to see some leverage - out of the Fed's actions - on our domestic economy. This bodes well for the long term health of the US economy.

From a Preservation-of-Capital standpoint, it is too early to begin reinvesting in equities. The problems in Europe do not bode well for the global economy.

That being said, for those investors wanting to get in on the ground floor of the next stock market rally, the growth in M-1 indicates that there is a significant momentum transfer, from the actions of the Fed, to a normal economic growth scenario, grounded in the multiplier effect of bank/business lending; that momentum is increasing and taking up where the Fed actions (QE-2 & QE-2) left off. This is good for the long term prospects of the US economy, and by extension, the Global economy.

Needless to say, putting money into equities today includes considerable risk. However, for those who want to take on some of this risk, I recommend you consider putting some of the money you have set aside for reinvestment in equities, back into the stock market.

For those of you who find my notes rather OBTUSE….

> **What I am saying in this letter is that I think it is ok to put your "big toe" in the water, not your whole "foot" and certainly, not a "whole body plunge" into the water!!**

Any purchases should be made on market "down days". We are likely to have some significantly sharp down moves in the not-too-distant future, and this would be the time to buy.

Sincerely,

Dick Brackett
High Desert Investment Advisors