A Far More Powerful Kevin Could Shape Your Future

Retrieved Monday 17th of July 2017 05:48:27 PM

In October 2008, the gold price in US dollars was around US$820 an ounce. Within three years, gold soared to nearly US$2,000…a

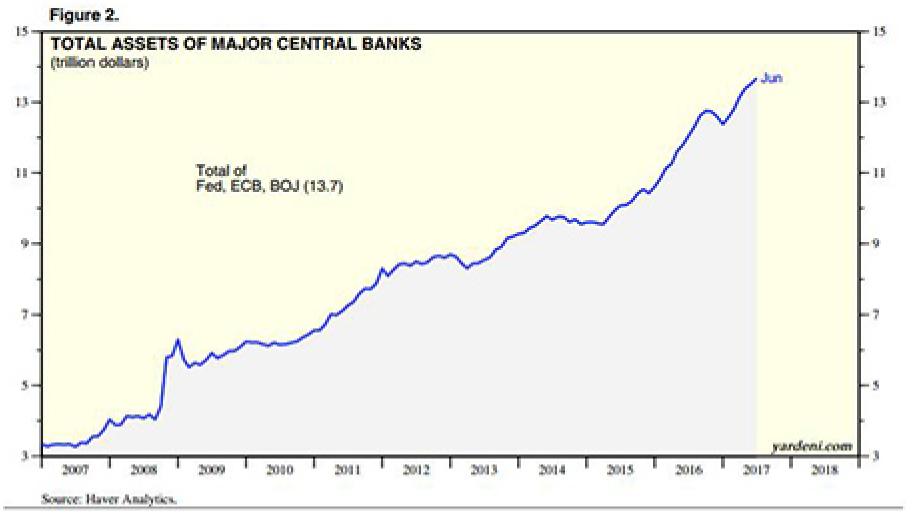
What was the wind beneath the wings of the gold price? Quantitative easing.

Traditionally, money printing has led to high inflation, and even hyperinflation.

What's the best way to protect your capital from rampant inflation? Hard assets. And when it comes to assets, they don't come much

With central bankers openly declaring a desire to reflate the depressed [global economy] with newly-minted currencies, inflation was c

And boy, did the central bankers deliver on that money-printing promise… Around US$10 trillion has been created since 2008.



Source: Haver Analytics
[Click to enlarge]

And here's the latest inflation news from the US, as reported by *The Australian Financial Review* (16 July 2017):

> '*The key news from the weekend however is that the latest US consumer price report showed inflation there is stuck in neutral. C*

This marks the 62nd straight month that the Federal Reserve Bank has failed to hit its inflation target.

Little wonder the gold price has lost 40% of its value over the past five years.

As mentioned in [last Friday's *Markets %26 Money*], the academic theory was that '*…a rapid increase in the quantity of money*' made

However, when that rapid increase in the quantity of money goes straight into asset prices rather than the broader economy, the flaw

You'd think with the US stock market hitting record high after record high, the economy (which supports the business activity) would

On 8 July 2017, *The Washington Examiner* published an article titled:

> 'At mid-year, is the US economy a zombie, or just sleepwalking?'

Not the line the Fed expected after more than eight years of trying to stimulate the largest economy in the world.

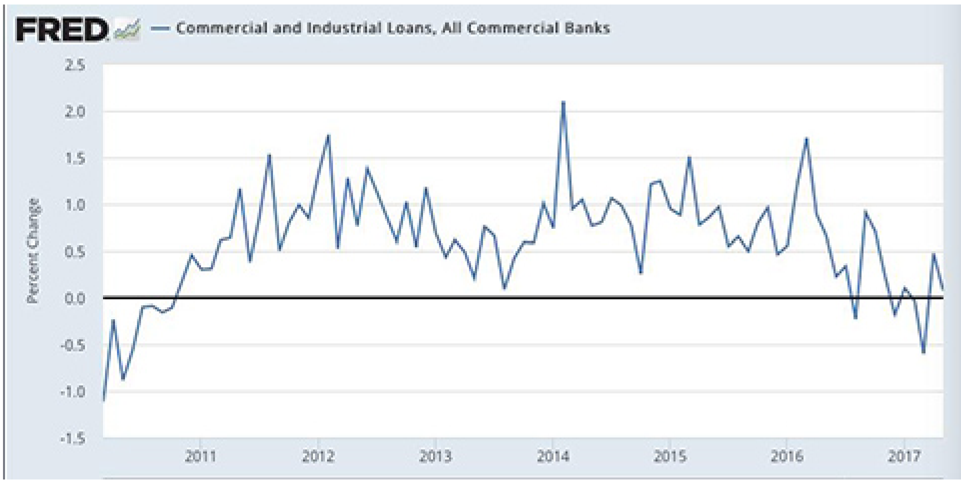
This is an extract from the article (emphasis mine):

> '*…the* [US] *Commerce Department raised its first quarter 2017 GDP growth estimate from a frigid 1.2 percent to a still-not-thawe*

> '*A quick check of bank lending doesn't give much cause for optimism. Commercial and industrial loans are being made at a posi*

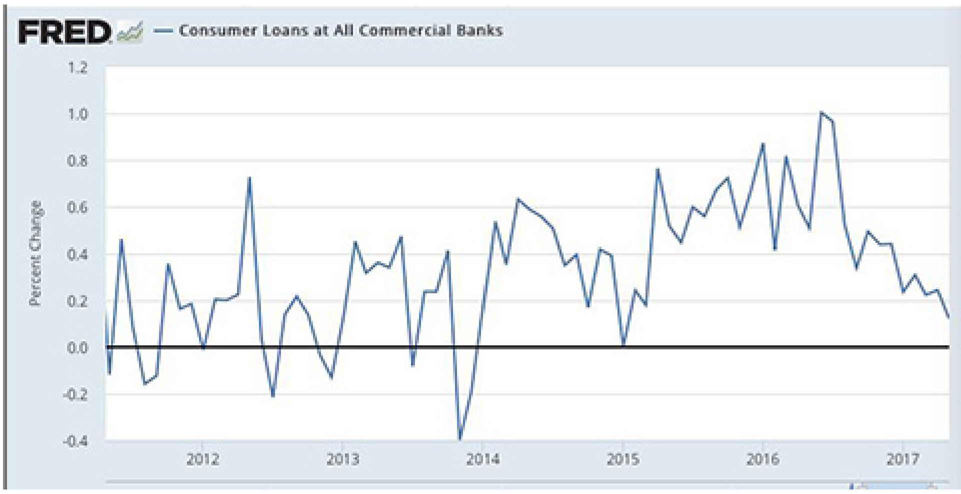
Confidence is a fickle thing.

When businesses are not quite sure of the future, they exercise restraint. Since early 2016, growth in commercial and industrial loans has been in a downward trend.



Source: Federal Reserve Economic Data
[Click to enlarge]

And it's not just corporate America that's exercising a little caution. Consumer loans have also followed the trend.



Source: Federal Reserve Economic Data
[Click to enlarge]

As *The Washington Examiner* observed, '*This* [trend] *is not a good sign for those looking for evidence of economic growth.*'

Why?

In recent decades, economic growth has been a function of consumers and corporates being prepared to go deeper into hock.

Global Financial Crisis 2017: Three Crisis Scenarios, and How They Could Impact on Australia

Markets and Money editor Vern Gowdie reveals the three crisis scenarios that could play out as the next credit crisis hits Aussie sho

Simply enter your email address in the box below and click **'Send My Free Report'**. Plus…you'll receive a free subion to *Markets a*

We will collect and handle your personal information in accordance with our [Privacy Policy](#).

You can cancel your subion at any time.

These days — due to the existing debt load in the economy — it takes more than $4 of debt to generate $1 of GDP growth.

If the private sector is showing a reluctance to take on $4 of debt, getting $1 of growth becomes much, much harder to come by.

Which is why public-sector-debt growth is on an unsustainable path upwards.

Even the tin-eared Fed Chair [Janet Yellen](#) acknowledged this reality at last week's House Financial Services Committee meeting (emphasis mine):

> '*I agree that what you're showing here represents a trend that, given current spending and taxation decisions, is* ***going to lead t***

We are trapped in a [vicious cycle of more debt](#) generating less growth.

We've been on this merry-go-round before, and that ride ended in tears.

Back in 2008, the Fed and other central bankers had the capacity to respond to the crisis.

Cash rates were high — compared to now at least. The Fed cash rate, prior to the crisis, was 5%. The RBA had the cash rate pegged at 7%.

Ah, the good old days.

But enough of the nostalgia.

The point is that there was margin to reduce rates to make debt far more affordable and attractive.

With central banker (the Fed, the Bank of Japan and the European Central Bank) assets at US$4 trillion, they could afford to put the printing presses into overdrive. An abundant supply of cheap money would do the trick.

And what did the extra US$10 trillion buy them? A polarising recovery.

The top few percent have never had it so good. Whereas the rest, well, they're not quite feeling the love. Stagnant wages. Reduced hours. Rising rents. Falling levels of home ownership.

The frustration is evident at the ballot boxes.

Again, in her recent testimony, Yellen acknowledged the inequality problem:

> '*"I am very concerned about inequality in income and wealth," she said. "I think Americans need to feel our economic system is*

The lack of social cohesion we're witnessing here and overseas is a result of central bankers meddling in asset markets.

Kevin Warsh to the rescue?

Please spare me the crocodile tears Janet. You knew all along what you were doing. When it came to a choice between Wall Street and Main Street, you knew exactly which side of the bread your butter was on.

There were those on the inside who told you, like Kevin Warsh:

> '*We should not encourage the central bank to be the handmaiden to the financial markets. We should allow asset prices to be a*

Who is Kevin Warsh? MarketWatch informs us:

> '*The top outside candidate to be next Federal Reserve chairman is Kevin Warsh, a former member of the board of the central ba*

> '*Warsh is running a close second to current Fed chief Janet Yellen in a Bloomberg poll of Fed candidates.*'

Warsh was appointed to the Fed in 2006. His appointment was to be until 2018. However, he resigned in 2011.

In 2010, Business Insider reported:

> '*More dissent in the ranks! This time it's from Fed Governor Kevin Warsh, who argues that monetary policy can't fix the econom*

When he resigned, there was speculation that he'd had enough of being the odd man out on the Fed Board…the lone voice of reason.

Yellen's term as Fed Chair expires in February 2018. It's no secret that Janet and Donald Trump do not exchange Christmas cards. Therefore, Janet's reappointment is far from certain.

Whereas Warsh's father-in-law and Trump are old mates. From Bloomberg:

> '*As a fellow at the Hoover Institution, Warsh, 47, was a member of the business-advisory council that met with Trump in Februa*

With the US cash rate barely above 1% (and, with the ordinary inflation numbers, there's no guarantee the telegraphed rate rises are coming) and QE not having any significant economic impact, what's in the central bank's arsenal when the next crisis hits?

This is what Warsh thinks:

> '*When the next shock strikes, the Fed is unlikely to have conventional or unconventional armaments in sufficient supply*.'

If the central bankers, with their limited arsenal, target asset prices again — putting the interest of the privileged few above the masses — they run the risk of inciting anarchy. The discontent will not be contained to the polling booths. It'll spill onto the streets.

If Kevin Warsh becomes Fed chair, it's possible we'll see a different response to the previous downturns.

The next US stock market decline could easily be in the 50–70% range.

It takes a 230% gain (from a 70% loss) to make an investor's dollar whole again.

Without the Fed coming to the rescue of the market, how many years, or even decades, will it take to recover?

This probably explains why Ray Dalio, the founder of the world's largest hedge fund, Bridgewater Associates, made this comment recently: '*Our responsibility now is to keep dancing, but closer to the exit and with a sharp eye on the tea leaves.*'

The smart money is getting cautious. They know the free ride is coming to a spectacular end.

The average investor rushes for the exit *after* the proverbial has hit the fan. By then it’s too late. My advice is to leave early.

Regards,

Vern Gowdie,
Editor, *Markets %26 Money*

- Author
- Latest Posts

Vern GowdieEditor at Markets %26 Money

Vern Gowdie has been involved in financial planning in Australia since 1986. In 1999, *Personal Investor* magazine ranked Vern as o

Latest posts by Vern Gowdie (see all)

- A Far More Powerful Kevin Could Shape Your Future - July 17, 2017
- The Squeeze is On at The Margins - July 14, 2017
- An Inconvenient Truth - July 10, 2017
- IMF stands for Insanity, Madness, Fraud - June 30, 2017