

BUBBLES AND CHEAP MONEY

I just cannot resist. I have to write about it. I was updating my files with the commodity data in preparation for the next issue. Unbelievable.

They are so pompous with their pronouncements. So many PhDs, so many academic and public service achievements, you could fill several books. Yet, I cannot fail to feel how impotent they are. I am talking about the Fed and its board, of course.

Above all they are bureaucrats and politicians. As in most large corporations, you do not want to look or act with boldness. If you are bold, you should not be there. You are there only because you are thirsty for power!

When in doubt, assume a middle-of-the-road posture. But in real life, when your neck is on the line, such behavior is equivalent to sudden death. The markets will devour you. No pity. No second chance.

I shiver when I look at the latest jump of commodities. When clients call and ask if we should buy more of them. When major financial magazines carry the story of great companies which capitalized on their relentless rise. This is the equivalent of the equity mania of 1995-2000, when the Fed nonchalantly debated its prospects.

Precious metal experts are invited to the podium to pontificate about gold above \$1000 because of the strong demand from India and China. Nonsense.

If you have been in this business as long as I have, you know you are witnessing a major bubble, like the one in the 1970s, the equity bubble of 2000, the housing bubble of 2005 (now in the process of imploding).

Bubbles are created by cheap money. You have cheap money when the Fed decides to set its price at low levels. When the money you “buy” from lenders is below its market price.

Investors and entrepreneurs recognize the opportunity and jump on it. They borrow as much as they can because they appreciate the unique opportunity. I wrote about it in 2001.

It is not the demand from China. It is cheap money. And the sagging dollar is the final act signaling the failure of the Fed’s policy. They are asleep at the wheel. The markets will wake them up.

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