Quantitative Easing 2 is a Bad Idea

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Google rose $60.52 per share, or 11.10 percent, in one day, Friday, October 15th. Google is one of those stocks that a market manipulator can buy to move an index in the hopes it starts bandwagon buying. During the 2003 and 2006 rallies, we saw MMM move the Industrials with bizarre isolated rising price days. At the time, it appeared to us a market manipulator was moving the Industrials higher with 3M purchases. From time to time we see concerted efforts to push markets higher. Now is one of those times. But each time this happens, it causes the subsequent decline to be worse than would otherwise have been the case, like stretching a rubber band too far. The snapback is nasty. Deep pockets can only delay the inevitable. They cannot stop it. ***Quantitative Easing talk is raising expectations for liquidity infusions that people think will seep into stock markets. Hedge funds are buying stocks ahead of the actual Quantitative Easing from the Fed. QE2 is simply a fancy name for the Federal Reserve printing U.S. Dollars and buying fixed income securities from large Wall Street firms, buying junk bonds, corporate bonds, mortgage backed securities or Treasuries. It is essentially a fraud on U.S. Dollar holders, is a fraud on the taxpaying U.S. Consumer and Small Business, a fraud on the working person who has to get his money through hard labor.*** This policy will destroy what is left of this fragile economy, and will eventually help drive stock market values down toward zero, and drive the U.S. Dollar down toward 40ish. QE2 is wonderful for large Wall Street firms' short-term profits. They love it. Imagine having a business where the Federal Reserve is interested in helping you make as much money as possible at the expense of everyone else? That is QE2.

We learned Friday October 15th, 2010 that the U.S. Federal Deficit for the Fiscal Year Ending September 30th, 2010, was $1.3 trillion. With a total Federal Budget of $3.5 trillion, this means that for every dollar spent by the Federal Government, they had to borrow 37 cents to cover that expense. Can you imagine running your household or small business like that? You would go bankrupt in short order.

Quantitative Easing will some day be looked back upon as we now look at

healing the sick through bleeding back in the 1700s. It is terrible economic policy, in fact should be considered criminal activity. Criminal for many reasons, such as debasing the value of the Dollar, but more importantly because it will be the final nail that destroys our economy. Wall Street is the key beneficiary. Households (consumers) which account for 70 percent of GDP, and small businesses, which account for 70 percent of employment, will not benefit from ***this fraudulent activity by the Federal Reserve***. Where on earth is it right for someone to print trillions of Dollars out of thin air and then buy legitimate legally binding debt instruments in exchange for this printed paper? Anyone else doing this would be arrested and thrown in jail, with the key tossed into the deep blue sea.

But forgetting that this is probably a criminal act, and assuming that it is legally acceptable because the Central Planners enact legislation to permit QE2, let's explore why it is a fraud on pretty much everyone except the sellers of the fixed income securities the Fed will be buying, primarily mega Wall Street firms, surrogates for the president's Working Group (the Plunge Protection Team).

Bernanke suggested in his speech in Boston Friday October 15th, 2010 on the subject of QE2, that he is justified in doing this to raise the inflation rate, which he believes is too low, and to increase employment. His economics are dead wrong. He believes it is perfectly appropriate to print trillions of dollars of U.S. Federal Reserve notes (Dollars) out of thin air, and then send this money from the Fed's print shop across the invisible wall that separates the real economy from the non-economy (the Fed) to the lucky recipients of this cash. Here is the problem: This transfer of printed cash for securities in the market are normally known as open market operations, and the point of this exercise is to lower interest rates in the market to spur lending and filter cash through Wall Street intermediaries to banks to borrowers which would stimulate the economy and multiply the money supply in the market. However, short-term interest rates are already zero, and long-term interest rates are at historic lows. ***So QE2 will not reduce interest rates. Therefore it will not increase borrowing. Therefore it will not multiply the money supply or spur spending, ergo it will not improve GDP, will not help households or small businesses. The cash will simply move from the Fed to Wall Street where the mega banks can then leverage their investing and trading activities which will improve their short-term profits. There will be no trickle down benefits to households or small businesses. Without benefits to households or small businesses, there will be no improvement***

in spending (GDP) or employment.

What will result from QE2 is the devaluation of the U.S. Dollar as there will be too many Dollars floating around, in relation to hard assets such as precious metals, and foreign currencies. This reduces the purchasing power of Dollars, and reduces the value of cash in bank accounts. In other words, the consumer gets hurt.

The only way QE2 makes any sense at all is if it is conducted in such a way that the cash being printed by the Fed finds its way directly into the hands of households and small businesses, instead of Wall Street. The only way for this to happen is if newly issued debt from the U.S. Treasury is sold to the Fed for newly printed Dollars, and then the trillions of QE2 Dollars sent to the Treasury from the Fed are sent directly to U.S. Households in the form of a massive income tax rebate, and tax cut, with a minimum amount of $50,000 rebated to every household, since many good folks did not have jobs over the past few years to receive rebated taxes. Then half the income tax rebates, which would be ideally two years worth, would be required to pay down debt, with the other half available to be used at households' discretion. The result would be an immediate improvement in household and bank balance sheets, and an increase in consumer spending (GDP). This would increase small business revenue, which would increase hiring, which would result in an increase in demand for large firms' products and services, which would mean more investment banking business for Wall Street. The economy would grow, increasing the overall pie for all to share and prosper, with a resultant corresponding desirable modest level of inflation. Local, State and Federal governments would benefit immensely as they get an increase in tax revenues from the trickle up economic growth, capturing taxes at every level of spending, which can be used to reduce government deficits and debt. Stock Markets would rise as corporate revenues and profits rise.

If the intent of QE2 fails to include the household, it should not be allowed to happen. Congress must put a stop to QE2 immediately, and require a full explanation of the intended program before Bernanke destroys our economy. There should be an open debate in Congress on the merits of QE2, with testimony from all interested parties, in front of television cameras, for the American public to study before QE2 is effectuated. This is not something the Fed should conduct in secret. This is new turf, new territory for the Fed, and warrants careful scrutiny. The Justice

Department needs to study if in fact the Fed is legally empowered to conduct QE2. This is serious stuff, an intentional devaluation of the U.S. Dollar, and thus needs to be treated as such. Intelligent, thoughtful contemplation is essential in an open public forum. Households and small businesses need to be able to weigh in by calling their congressional representatives before QE2 happens. QE2 should require an act of Congress. The Fed should not be allowed to do this on their own.

Unfortunately, the language of the markets, price patterns and indicators, have been warning for months that the U.S. Dollar is headed to 40ish (it knew QE2 was coming), and is telling us the stock market will react very badly once QE2 starts.

It does not look like there is any stopping QE2. The Central Planners are convinced that the more they do, the more control they take, the more they couch their activities with terminology that makes it impossible for the average Joe and Mary to understand what they are doing, the more they involve mega Wall Street firms in their fixes, the better. It is becoming very difficult to know if the Central Planners are simply misguided in their policies, that their intentions are good, that they really care about households and small businesses and the economy, or is this all an intentional game to benefit only the few large and powerful Wall Street banks, to build an oligarchy of Centralized power by design. That is for those who can figure out the schemes to decide for themselves.

The market's language, technical analysis, suggests that regardless of intention, mistakes will be conducted, and the worst will occur.

"Jesus said to them, "I am the bread of life; he who comes to Me shall not hunger, and he who believes in Me shall never thirst.
For I have come down from heaven,
For this is the will of My Father, that everyone who beholds the Son and believes in Him, may have eternal life;
and I Myself will raise him up on the last day."

John 6: 35, 38, 40