

March 2009

“Adverse feedback loop”

In an attempt to define our current economic crisis, Federal Reserve Chairman Bernanke used this phrase last week in his semi-annual report to Congress. (It may be 'Fed Speak' for: “we are all watching too much CNN!” But that is just my opinion.) The economy is in dire straits and is not going to get better quickly. *If* the right steps are taken we might begin to see relief from the recession by the end of this year, according to Bernanke. *If* that happens, we may see a full recovery in two to three years. I understand such a time frame, but it's pretty optimistic in that the little word “*if*” is directed at actions taken by our political leaders, among other imponderables.

It's a tall order by any measurement. There are very few absolutely right actions to be taken and a whole lot of actions that may or may not work out. The pundits on TV can say whatever they want because nobody, and I mean Nobody, knows what is going to work. Our capitalistic economy and our society are in totally new territory. This week saw the government taking a major equity stake in Citicorp, something that no pure capitalist ever wanted to see. This action sent shivers down the spine of the stock market even though Chairman Bernanke was very clear that the US does not want to manage this or any other bank. And there may be more of these partial nationalizations before we are done, just as there have been many in some other countries. The bankers and the wizards of Wall Street screwed this one up, and the responsibility of the Federal Reserve and the Treasury is to do whatever it takes to prop up our system until it can come off life-support. Failure to act is not an option.

I have not spoken to one person who believes that the US will not recover from this situation. It is a question of when it begins. If Chairman Bernanke is correct and we do indeed start to recover from the recession at the end of 2009, we will look back at these early months of the year as the bottom of the cycle. To borrow a phrase from a well-known writer, let's all participate in the audacity of hope.

Until a recovery begins, there will be no growth in portfolios. I will continue to focus on mitigating losses and generating income. In the current circumstances, we contain losses by holding more cash or by owning an inverse fund. (An inverse fund makes money when the market goes down, as opposed to a regular fund that owns stocks to make money when the market goes up.) Income, for those accounts that depend on monthly income, is being created by using my 'T24' investment program. T24 creates a large amount of income by selling options instead of depending on dividends (most of which are being cut as the recession flexes its muscles). A new section of my website, dedicated to T24, is in the final stage of development, completion expected in the next couple of days. Please check it out and give me your feedback, “adverse” or otherwise.

Isn't that spring I see dimly up ahead?