KEIM ASSET MANAGEMENT, LLC
Preserving Your Lifestyle

"Uncharted Waters"

I hope you and your family are well since the last time we talked.

Our economy is moving slowly forward. At the end of the second quarter, it was approximately $15.6 trillion dollars, still #1 in the world. We expect slow growth to continue for the rest of this year. The most encouraging news is coming from the beat-down housing sector. There are several signs that housing may have finally bottomed and is in a sustainable upturn. It's possible that housing could make a positive contribution to GDP by the end of the year. This would be the first time in several years.

The U.S. fiscal year 2012 just ended on September 30. The budget deficit for the year was $1.09 trillion dollars. This is the fourth year in a row that our government has borrowed over a trillion dollars to operate. I talk with clients all year long, and everyone realizes we cannot go on like this for long. Our elected representatives have to do their jobs and start making the hard choices that good leadership requires.

One of the most significant things that has happened in this quarter is the new Federal Reserve policy. Ben Bernanke, our Fed Chairman, has essentially given himself a blank check to print money every month to buy mortgage-backed bonds until he sees significant progress on unemployment. Some prominent financial writers are calling this QE Infinity. This is a very worrisome trend. One of my favorite central bankers, Dallas Fed President Richard Fisher, had this to say recently to the Harvard Club of New York City:

"The truth, however, is that nobody on the committee, nor on our staffs at the Board of Governors and the 12 Banks, really knows what is holding back the economy. Nobody really knows what will work to get the economy back on course. And nobody – in fact, no central bank anywhere on the planet – has the experience of successfully navigating a return home from the place in which we now find ourselves. No central bank – not, at least, the Federal Reserve – has even been on this cruise before." (1)

You can plainly see how much risk we are still facing from Mr. Fisher's honest assessment of our situation. There is no guarantee of any kind that printing more and more dollars to buy these bonds will improve our economy. Interest rates are already at rock bottom, and banks and corporations have plenty of cash on hand. We risk continued erosion of the dollar and possible high inflation in coming years if the Fed does not bring this strategy to an end soon. We have to get back to a position where the economy is running well without continued help from the Fed. Let's hope they are successful at "navigating a return home".

If you have questions or comments, please feel free to contact me anytime to discuss your portfolio.

(1) Federal Reserve Bank of Dallas, Speeches by Richard W. Fisher, September 19, 2012.

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