

Cut or No Cut?

Well, tomorrow is the big day, as Ben Bernanke will announce his number. Will he cut interest rates by a half, a quarter, or nothing at all? Never have so many eyes been riveted, so many words spoken, or so many columns written in anticipation of the events of tomorrow. And to think, most people were awakened this morning to find an old fashioned 1929 run on Northern Rock, one of England's top banks. In addition, Alan Greenspan was all over the airwaves hawking his new book, declaring his innocence in the housing debacle, and stating the U.S. economic situation "looks glum." With all these cheery events, it was probably better to have stayed in bed. However, everyone else is predicting tomorrow, so I thought I would, as the British say, "give it a bit of a go."

My analysis: The Fed cuts interest rates by a quarter, reduces the discount rate by a half, and invokes some Byzantine archaic strategy known only to Alexander Hamilton.

Result: Bernanke is praised as brilliant, and the stock market soars. Economists will say his moves were just right, and he has saved the world.

Unfortunately, the billions of dollars of adjustable-rate mortgages re-setting in the next twelve months will be unaffected by such a rate cut. Reality could set in, with the dollar continuing to plummet, gold soaring, and several homebuilders going bankrupt. The market, having shot up like a rocket, might plummet like a lead balloon. Recession might be imminent, and many sectors could be in downright depression. The time frame? Probably sooner rather than later.

Irrespective, it should be some show. Strap on your seatbelts, the ride could get very bumpy.

Till next time,

Bill

P.S. – Cash, gold, and short positions in both homebuilders and financials seem to be the ticket.

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