THE DANA VIEWPOINT

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Having Your Cake And Eating It Too

Did the stock market rise 200+ points on Friday because the jobs report was better than expected or did the market rise because jobs numbers were bad enough that it would cause the Fed to continue its purchase of securities thus continuing to provide money that is finding its way into common stocks? Also, by keeping interest rates low they are encouraging (unwittingly?) corporations to borrow money and use it for stock buy-backs. This helps pump up earnings per share (fewer shares divided into earnings). This in turn encourages investors to buy the stock and push the price upward. Investors seemingly can't lose. Good news is good and bad news is even better. The original cake phrase was actually stated as you cannot eat your cake and still have it which is really what the Fed is trying to do – and successfully so far. They keep creating new money by purchasing bonds and are still able to keep reported inflation under 2%. Their goal is also to stimulate economic growth and drop the unemployment rate to 6.5%. That's a lot of cake. One has to wonder how long they can continue to print money and keep inflation under 2%. Inflation isn't just the creation of money. It is the velocity of that money. So far that money is not moving as can be seen by the slow economic recovery. If and when the economy accelerates – and it will – that money will move, and it will be interesting to see how the Fed will control inflation. Already we are seeing more Fed members questioning current QE policy. San Francisco Fed President John Williams said, "The pace of our securities purchases could be reduced as early as this summer." New York President William Dudley said, "Because the outlook is uncertain, I cannot be certain which way – up or down – the next change will be." Well, that's certainly encouraging. Maybe former Chairman of the Fed, Paul Volcker, put it best recently when he said, "It's fashionable to talk about a dual mandate, that policy should somehow be directed toward two objectives, of price stability and full employment. Fashionable or not, I find that mandate both operationally confusing and ultimately illusory." It was Volcker's advice to President Reagan not to interfere and let the markets work it out. At that time, we had the prime rate heading to 22%, inflation at 15% and unemployment at 10%.

To frack or not to frack? That is the question for California legislators. Environmental groups

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have been able to stop drillers in the state from using the new technology known as hydraulic fracturing or fracking. These groups, with the help of Hollywood filmmakers, have been denouncing fracking as polluting our water supplies and even causing earthquakes. The Environmental Protection Agency (EPA) has stated they found no evidence of either. Up until now legislators in California have imposed a moratorium on this type of drilling. That changed recently when the legislators voted down the moratorium 37 to 24 with many former supporters of the bill choosing not to vote. Fracking is already being used in oil fields around Bakersfield. Legislators no doubt have noticed North Dakota's low unemployment rate (3.5%) and budget surplus due to the oil and gas boom in the Bakken oil fields where they use fracking technology. California has vast oil and gas reserves around Monterey. Fracking technology would allow oil companies to extract these reserves from the shale formation deep under the earth's surface. Scientists estimate that there is as much as fifteen billion barrels of oil. More importantly, it is estimated that fracking would create 500,000 jobs over the next several years and that going after this oil would deliver about $25 billion in state and local tax revenue by 2020. As California is sitting on $170 billion in long-term liabilities, this would go a long way in reducing its debt.

Déjà vu all over again. In the 1980s the US was fearful that Japan was going to overtake us economically. They were buying our assets left and right. Alas for Japan, their economy hit a wall and they went into a two decade recession and sold most of their US assets at a loss. Now it's China's turn. They recently announced an attempt to buy Smithfield Foods, the largest pork producer in the world. More alarmingly, they are traveling the world establishing relationships and buying rights to commodities. They recently extended a $1 billion line-of-credit to Mexico for oil development. They are still working a deal to acquire oil from the Alberta Sands in Canada. We could have that oil if the administration would sign off on the XL pipeline that could deliver oil to our refineries. It is important that we cultivate relationships with our neighbors and that we develop our own oil and gas resources. We need to become oil independent so that we can compete with China on the global stage.

Random Thought for June 2013: In 1980, there were 15,099 Americans aged 100 years or more. By 1990, there were 36,486, and by 2012, there were 88,510 according to the Census Bureau.

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