



Wall Street to Bay Street

This blog is one man's view on the state of the world, the equity markets, and my thoughts on how to try and make money in these crazy markets. I will endeavor to bring actionable ideas to the site for my readers. Obviously these are difficult times as we are living through one of the greatest bear markets in history. Many experts' views range from extremely bearish to outright bullish. What will be the fate of the markets and how will this affect all our lives?

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Dow Theory Letters

Anyone who hasn't read any Richard Russell I would highly recommend. He has one of the longest (if not the longest) market newsletter out there and it is filled with tremendous insights from the last 75+ years. Here is a snippet from his latest post.

The end of Keynesianism? Yes, I think we're seeing it now. Fed Chief Bernanke in his writing blamed the Great Depression on the Fed for shrinking the money supply. In fact, Bernanke even apologized on the part of the Fed for "causing the Great Depression." Bernanke, wrote a famous piece explaining to "us know-nothings" that the Fed has a magic instrument, it was the ability to print money, and, if necessary, to drop this Fed-created money to the American people from helicopters. With his magic power, concluded Ben, there was no way the US could slide into another Great Depression.

It was great and comforting concept, but it didn't work. After leaving rates at zero, printing over two trillion "dollars" and backing billions of dollars in stimulus plans, unemployment remains high, housing stays in the dumps and the national debt has sky-rocketed beyond all reckoning.

The spending plans of the Obama administration and the expansion of money by the Fed has left the US in worse shape than ever. Unemployment is still high, and the US has taken its place along with Greece and Portugal as another "half-broke banana republic."

How did this horror story befall the once "greatest nation on earth" and the one-time "Arsenal of Democracy?" If a house is built on sandstone and with rotten timber it's not a question of whether that house will fall apart -- it's a question of WHEN. Ever since the end of World War II, Americans have been enjoying the greatest standard of living the world has ever seen. How did we do it? Was it hard work, sweat, original thinking, risk-taking or pure luck? Hardly any of those, it was through borrowing and creating a gigantic house-of-cards. The cards were the newly-created bits of paper that we call dollars (actually, they are Federal Reserve notes backed by nothing).

Without its abilities to create fiat money, the US could never have built its "house-of-cards economy." Without the insidious Fed, the US would never have had the

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ability to create trillions of unbacked Fed notes.

I've insisted all along that the US should have allowed the primary bear forces to fully express themselves, as they inevitably will do anyway. But in its arrogance and ignorance, the administration decided that they could halt or sidestep a recession by printing us out of trouble. It's been a terrible and expensive mistake. Finally, with debts now pushing above 90% of GDP, the American people have shouted "Stop, it's not working, we can't find jobs, and you people in Washington are pushing us and our children into a state of bankruptcy. If you don't know what you're doing -- stop it!"

When the voters are "mad as hell," the politicians take notice. What's happened is that 65 years of over-spending and borrowing has never been corrected in a major way. But the gods of the market have finally warned, "You nations of the world have crossed a line in the sand. Now it's "pay-back or correction time." Now is the time to pay for 65 years of unearned prosperity. You wouldn't build up your economies through hard work, sweat and tears. Like children you've demanded, "I want it, and I want it now."

What's next? I think Washington will continue trying to spend us out of recession. This did not work in the past, and it's not going to work now. The primary bear market will not allow it to work. But what if the Administration gives up and allows the forces of deflation and correction to express themselves?

Here's where my crystal ball gets very cloudy. I don't see Washington accepting another long, drawn-out recession or another Great Depression. The temptation will be too strong to try to print us out of the recession or to create enough government-sponsored jobs to drag us out of the recession. That's what I see happening.

What would I have done? I would have done exactly the opposite of what has been done by Obama. Instead of promising prosperity and "back to normal," I would have told the nation the truth. You've lived the great and unearned life for 65 years, all created by credit and borrowing, fun's over. You must now pay for it with SACRIFICE. Americans must cut back to the bone. Children may have to move back with their parents, Americans may have to build "victory gardens" as we did during World War II. We'll have to learn to save and crimp. If you want to buy a house or a car or a washing machine, you'll have to wait until you earn enough to pay for those items.

The difficult choice is to sacrifice or America shrinks to a has-been power -- this is the "hard rain" I've been warning about.

Posted by James Witmer at 10:17 AM

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