

Fedspeak: Polyglot Perspicacity

"Twas brillig, and the slithy toves Did gyre and gimble in the wabe; All mimsy were the borogoves, And the mome raths outgrabe." Reading silently or aloud creates rhythmic nonsense, you might think. Humpty Dumpty explains, defines, and clarifies for Alice. Soon Alice sees meaning. As she does, the upside downs become the right side ups.

Alan Greenspan often sounds like the Jabberwocky as much as Humpty Dumpty seems senatorial. Mr Greenspan's econoblab explained a lot without telling much. His Federal Reserve messages provide detailed economic data with vague nuanced economic outlook. Many Federal Reserve watchers hope Mr. Bernanke (Alan Greenspan's successor) tells us a lot so that senatorial Humpty Dumpty's do not seek explanations for economics "...that haven't been invented just yet."

When the Federal Reserve Chairman presents the "Semiannual Monetary Policy Report to the Congress", it is called the Chairman's testimony. Testimony may be defined as "Evidence in support of a fact or assertion; proof." Statements must be lucid and transparent to the hearers to prove assertions or claims.

Mr. Bernanke seems to do this with greater clarity. His sentences are brief, but not terse. According to a CNN Money.com poll, most respondents consider Ben Bernanke's testimony (or shall we spell it "testimoney"?) the "Same as Alan Greenspan". If transparency and clarity mean something, it is time for Mr. Bernanke to "explain" it to us.

- * The new Fed Chairman used these phrases: "The U.S. economy performed impressively in 2005."
- * "...Energy prices rose substantially yet again."
- * "The Gulf Coast region suffered through severe hurricanes that inflicted a terrible loss of life"
- * "Inflation pressures increased in 2005"

A friend calls these "keen observations of the obvious."

We should expect more from the Fed Chairman. Investors need to know if rates will go up rather than guess. Ratcheting interest rates slows the housing market (Greenspan mentioned this "bubble"), increases the cost of debt as credit card companies and mortgage companies leverage rates, and sends equity and bond markets into an economic whirlpool.

Rate increases may control inflation, but they do little or nothing, in my opinion, to encourage an economy. There is a greater likelihood that the Fed will overdue interest rate increases (up or down). This will push the economy into a recession or a bubbling boom.

Residents of econoland, known as economists, worry that the Fed will overdo their inflation concerns. According to some, the Fed has managed inflation poorly since World War II. Nothing in this Federal Reserve Chairman's testimony suggests otherwise.

Does the Fed move rates up or down, or do interest rates adjust coincident with inflation reports and other economic data? Watch the market before and after the Consumer Price Index reports. The January CPI shows a .7% inflation increase with 70% of that increase attributed to energy costs. You would expect the market to collapse on such news; it did not.

The markets go up sometimes and down others. Humpty Dumpty, would you make the upside downs become the right side ups?

"Of all the unsatisfactory--" (she (Alice) repeated this aloud, as it was a great comfort to have such a long word to say) "of all the unsatisfactory people I EVER met--" She never finished the sentence, for at this moment a heavy crash shook the forest from end to end."

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