Taking Off the Training Wheels

While we are managing our personal economies by spending, saving and investing, the Fed is managing the entire American economy. This is where the fight starts.

The Fed wants you to spend more, particularly by taking on loans. The best thing to do – from the Fed’s point of view – is to buy a new home. Many of us have other plans. We are trying to get our household balance sheets back to normal and save for retirement.

While you may be "fighting the Fed" it is important to understand that any potential change in Fed policy can impact your personal economy and your portfolio. Lately the Fed has been in the news a lot. My job is help you make sense of all the noise out there.

Federal Reserve Chairman Ben Bernanke recently announced that the Fed may begin to taper its quantitative easing program by the end of the year. In plain English, this means that the Fed might slow its easy money program that has kept interest rates at very low levels.

This sent investors scrambling, causing a sell-off in the stock market. If interest rates go up then it costs more to borrow thus slowing an already sluggish economy. After watching the markets react badly to the tapering talk, the Fed quickly responded by holding a press conference to assure investors and clarify its position. Such action will only take place if the right economic conditions are met.

So why this recent announcement by Bernanke? According to the chairman, the economy is showing real signs of strength, making quantitative easing less necessary. He can cite the rise of home prices and recovery of the stock market to support his case. But there are still cracks in the economic ship. A recent survey indicated that 76% of Americans are living paycheck to paycheck. Unemployment hasn't been under 7% since November of 2008 and is currently at 7.6%. The Fed can do what it wants to, and that’s what scares the markets.

We may once again be entering new territory. Just as nobody knew what was going to happen with unprecedented amounts of monetary intervention by governments and central banks, nobody knows what will happen when these programs stop.

The immediate fallout from Bernanke's announcement indicates that we may be seeing increased uncertainty and volatility in the markets. The rise of the markets from their 2009 bottoms have been based on investors knowing the Fed would print money and provide easy credit. With a Fed pullout looming, investors know that assets and borrowing costs will have to adjust. This adjustment period mean the markets might gyrate.

We knew this day was coming and have been talking about it for some time. We have formed a plan around these economic eventualities to help you achieve your goals of building wealth and economic security. We cannot change what the central bank does, but we can choose how we react to its policies. We are here to assist you by not only building your financial plan, but helping you stick with it in the face of more volatility and uncertainty.

Sincerely,

Jeremy E. Portnoff

Jeremy E. Portnoff, MSFS, CFP®, CRPS®, CES™, CFS®, CTS™, CAS®, CIS™
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