

"It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."

Henry Ford

## Reality Check - The Market & The Fed

At Banta Asset Management, we know the stock market is **not** *the* economy. Yet, we also know the market is among the few places today to find yield in this new normal of slow global economic growth. Maximizing the timing of *this* bull market is central to our investment strategy. We remain perceptive of *your* unique investment objectives by maintaining nimble mobility within your portfolio to capture the current market gains while also hedging against the reality when the market will begin to ease.

While the stock market continues to set record highs, the **astute investor** must be mindful of the primary mechanism behind its unprecedented rise – namely, the **Federal Reserve Bank**. Below are important facts aimed at providing insight for the market's spectacular rise, all while the U.S. economy shows tepid growth, the European Union is now in its longest recession, and China's economy is slowing.

## The Market - Milestones

- From the time the bull market was born in 2009, most of the credit for the stock market's surprising rise has gone to the Federal Reserve, whose easy-money policies have fueled Wall Street's appetite for equities
- The Fed's zero-percent interest rate policy and its unprecedented bond-buying program (Quantitative Easing or QE 1, 2, and 3) are often cited as the major engines behind the market's rise over the past four years.
- The policy has driven interest rates and borrowing costs to record lows, which has spurred risk-taking, has allowed consumers to get their finances back on track, and has enabled corporations to produce consistent profits
- Low interest rates on cash and bonds have also made the stock market, which now delivers higher dividend yields than the 10-year U.S. Treasury note, a far more attractive investment versus fixed income

## The Fed - Reality Check

- The Fed recently announced it will continue its QE3 bond-buying program of \$85 billion per month adding trillions to the Federal Reserve balance sheet
- The program will ease only when the unemployment level shows signs of improvement
- The Market is likely to continue to push higher or at least find a floor as long as the Fed keeps rates at artificially low levels, the economy keeps growing, and companies continue to produce earnings growth
- Ironically, stocks could also get a further boost even if economic indicators show down turns, because the
  Fed will continue its monetary programs giving investors further indications that cheap money is here for the
  long-term

## Toward New Highs While Hedging Against Gravity

The important outcome here is that investors **enjoy the rise** of record-setting stock prices - while anticipating that "record-setting" **highs** will eventually be met with **corrections**. At Banta, our approach follows the sea captain's motto of maximizing the gains afforded by rising seas, while preparing for the ensuing calm.

With continued confidence,

**Banta Asset Management**