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CASH IS TRASH, OPINES YELLEN

New Species: *Monetarius Indecisivus*, or the "Hawkdove"

Sometimes I wonder if we were better off when former Fed Chairman Alan Greenspan used to part-mesmerize and part-put us all to sleep with his pronouncements. At least back then, we didn't have the confused cacophony of voices we have today; ones from the Fed--and their mouthpieces--regularly at odds with one another.

And sometimes, as I've lamented, *they can't agree with themselves*; especially the current titular head of it all, Janet Yellen. One minute she's ready to get a band to strike up "Happy Days are Here Again," so impressed is she with the recovery in the economy and employment that the Fed "created" (Blecch!) The next, there's so much indecision and "yes, buts" that it can only be dealt with by arming oneself with a Thesaurus, goat entrails and a stiff drink to try to make sense of it all.

On its own, the waffling of Janet Yellen would be somewhat humorous; even a bit pathetic, especially at those times when a tough question leaves her stammering and with that old deer-in-the-headlights look. **The trouble is, just about everything in the markets right now depends to a great extent on whether she and her cohorts really are serious about trying to "normalize" policy sooner rather than later.** Sure, Vice Chair Stanley Fischer recently made clear that markets should not necessarily expect numerous rate hikes IF the Fed does hike short-term rates at least once before 2015 is over. That -- and Yellen's similar comments last week when she had a "dove moment" in her speech in San Francisco -- were a little soothing. Trouble is, it wasn't many breaths in between *that*, and her "hawk moment" when she repeated that the Fed could move *even if core inflation wasn't moving higher yet*.

The BIG, hot comment from Yellen's late Friday talk, though, had to do with her opinion of *cash*. Now, on one level, the comment that came from her was neither a surprise nor some opinion that was never held prior to this by a Fed chair. Starting back with Greenspan in the wake of the dot-com crash in 2000, broader bear market and the recession also made worse by the September 11, 2001 attacks, the Fed has very consciously been on a mission to render cash *trash* in comparison to most everything else. By jamming interest rates lower--with the only exception being a brief interruption in 2005-2006--the Fed was of a mind to get the markets, consumers, etc. all on board *to keep the fractional reserve system from imploding*.

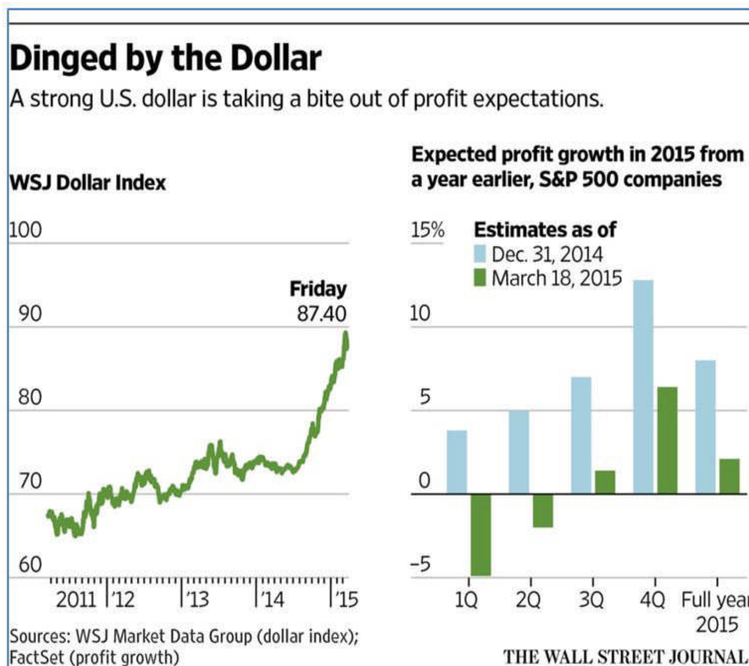
The 2000-2002 time frame had stoked serious fears of a Japan-style deflation taking hold in America. At all costs, Greenspan had to chase people out of cash and away from habits of prudence. Together with the national government, the party line--especially in the wake of 9/11--was that Americans should go out and run up their charge cards. Greenspan started slashing interest rates aggressively to help foster that. Even the government engaged in some fiscal stimulus measures that--for a change--refreshingly helped Main Street.

But this was small potatoes compared to Greenspan's goal to render cash as trash where savers, investors *and especially big investors* were concerned. By slashing interest rates, cheapening the U.S. dollar most of the time and--most of all--in almost single-handedly creating and fostering the monstrous and murky derivatives bubble, "The Maestro" presided over a monetary inflation (no, a *hyperinflation*) without historical precedent. We all know what happened next; and Yours truly is but one of those who is happy to see that *at least some* people can now understand in retrospect what this monetary mad scientist did, and how we are still paying the price for it all. (NOTE: One of the better recaps of Greenspan's nearly two decade tenure was written several years back by one Ryan McMaken, a political science professor; it can be found at Lew Rockwell's web site, at https://www.lewrockwell.com/2010/06/ryan-mcmaken/the-criminal-legacy-of-alan-greenspan/)

Ben Bernanke and, now, Janet Yellen have carried on this crusade intended to primarily cause investors to put money to work in just about everything *but* "cash." What struck some people odd (or in the case of *CNBC*'s Rick Santelli, *apoplectic*), though, is that Janet Yellen would have **come right out and said** that "...cash is not a very convenient store of value." More curious still is that she would say this as the Fed is ostensibly preparing to *raise* interest rates at least a smidgen.

At this Zero Hedge link -- http://www.zerohedge.com/news/2015-03-27/santelli-stunned-janet-yellen-admits-cash-not-store-value -- you can listen to both the pertinent portion of Yellen's comments as well as the ones later offered by Santelli. Yesterday (Monday) morning, Santelli brought all of this up again in a discussion on the air with long-time investment manager Ira Harris. One can only conclude as they did (and I do) that--whether Yellen's comment was a Freudian slip or intended more deliberately to convey a message--**this was the latest indication from her that the Fed has no intention of really getting out in front of "inflation."**

As we move into the second quarter, the ongoing preoccupation about the Fed's intentions will remain pretty much the number one thing in the minds of the markets. (Rather than take up additional time and copy here, in order to be able to move on to company updates and my one new recommendation for this issue, I'll direct you to the following link where tonight -- March 31 -- I recorded about a 15-minute monologue on the markets generally: http://www.kereport.com/2015/03/31/wrapup-quarter-thoughtsinvestment-themes-chris/)



The one thing I'll reiterate here as paramount is this: the exchange value of the U.S. dollar will become even more obsessed over, especially if recent highs at a sliver over 100 on the U.S. Dollar Index are breached. Though certainly not the only factor, the strength of the dollar since mid-2014--and its acceleration this year--has been a key one in expectations for a veritable plunge in corporate earnings year-over-year as first-quarter numbers start to come out.

The Fed has started a bit more to acknowledge the negative aspects of both the stronger U.S. dollar and the crude oil plunge. For all their tough talk, I *still* believe that the "Hawkdove" and her crew are more likely than not to exit 2015 without raising short-term interest rates at all.

The above is excerpted from the April 1, 2015 issue of *The National Investor*.

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