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The Federal Reserve And The Imbalances It Creates

By Peter C. Schmidt

SUMMARY:

- Even very large aircraft have limits on not just the weight of the payload they can carry, but on where this payload must be placed in the aircraft.
- These limits assure that the aircraft remains 'balanced' and capable of being controlled by the pilot.
- Cargo aircraft in particular are susceptible to balance issues and heavy loads must be properly located and secured prior to flight.
- A large load shifting can easily cause a perfectly sound aircraft flown by experienced pilots to crash.
- One of the most malign impacts of 'active' central banks, like the Fed, is the enormous imbalance they create in markets.
- Two of the best examples of the market imbalances created by the Fed are the July 1927 conference of central bankers called by Ben Strong and Alan Greenspan's emergency rate cut after LTCM collapsed (OCT 1998).
- In both cases, the imbalances created by the Fed ***immediately*** sent markets soaring. Markets continued to soar until they collapsed under the weight of their enormous contradictions and departures from reality.

DISCUSSION:

Any one who has ever flown on a small aircraft should be familiar with an aircraft's weight and balance limits. I worked on St. Croix for a year, and flying to the island always required a short flight from San Juan, Puerto Rico. The plane was very small - it sat only five passengers, one of whom sat next to the pilot! There were times where the airline instructed people to leave their luggage behind with the promise that it would be delivered the next day. Typically, there was no issue with the plane's capacity to carry the weight; instead it was the result of the luggage having to be placed in a location that would upset the plane's limits on 'balance.'

This same phenomenon can be seen on a much larger scale with the C-17 aircraft and its ability to carry an M1 Abrams main battle tank. See Figure 1. While the M1 weighs 70-tons, the C-17's payload capacity is in excess of 85-tons. From a purely payload or weight perspective, the M1 is well within the capacity of the C-17 to carry. However, because the tank is relatively small in size relative to the aircraft, it has to be placed at a very precised location in the aircraft. Specifically, the aircraft's center of gravity must remain forward and not be allowed to move too close to the tail. As seen in Figure 1, both the aircraft's weight - including the cargo weight - and the lift generated by the wings tend to pitch the aircraft's nose down. It is the force generated at the tail alone that tends to pitch the nose up.

As long as the plane's center of gravity remains close to the 'center of lift,' where the wings create lift, the tail will be capable of keeping the plane in balance. The doomsday scenario for a cargo aircraft, particularly one tasked with carrying an enormously heavy item that isn't very large, is the heavy item breaking free and moving in flight. A 'load shift' involving an M1 tank sliding to the rear of a C-17 during takeoff - which is exactly when such a load shift is most likely to happen - would quickly overwhelm the aircraft's enormous capabilities and skill level of the highly trained aircrew.

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The Latest Lie from on-High: An "Independent Federal Reserve"

By Matthew Piepenberg

Earlier in July, U.S. President Biden came away from a meeting with Fed Chairman Jerome Powell and calmly announced that in addition to inflation being "short term," we should fear not, as Biden also "made it clear to Chairman Powell that the Fed remains independent," but "will act as needed."

Whewwww. Where to even begin in unpacking the lighthouse of reality behind so much verbal fog?

When it comes to market analysis, no one wants to hear political opinions within finance reports, left or right.

We get this.

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Thus, rather than run the risk of offending the left, right or center, I'll be frank in confessing my foundational view that nearly all politico's (and Fed Chairs) have been universally comical when it comes to math, history or blunt-speak.

In short, the math, facts and warning signs rising by the hour (and outlined below) make it easy to be an equal-opportunity cynic when it comes to fiscal leadership or political "truth."

So, let's get back to Biden's recent observations…

Deconstructing Biden-Speak

As for inflation being "short-term," we've written ad nauseum about our stance on this fiction many times elsewhere.

But as for Biden's declaration about the Fed being "independent," let me wipe the coffee I just spilled on my shirt and speak plainly: *That's a lie*.

First of all, if the Fed were as "independent" as Biden claims, then how can Biden be so certain they "will act as needed"?

Aren't "independent" actors supposed to act as *they*, rather than the politicians, decide or "need"?

And if an otherwise *unconstitutional* Fed, which sits on *Constitution* Ave behind marble columns screaming of a *governmental* architectural *façade* were truly an *independent* "private bank," then why does it call itself a "*Federal*" Reserve?

Furthermore, for any who have taken the time to read the actual (as well as sordid) history of the Fed's not-so-immaculate conception (as uniquely outlined in Ed Griffin's seminal work, *The Creature from*

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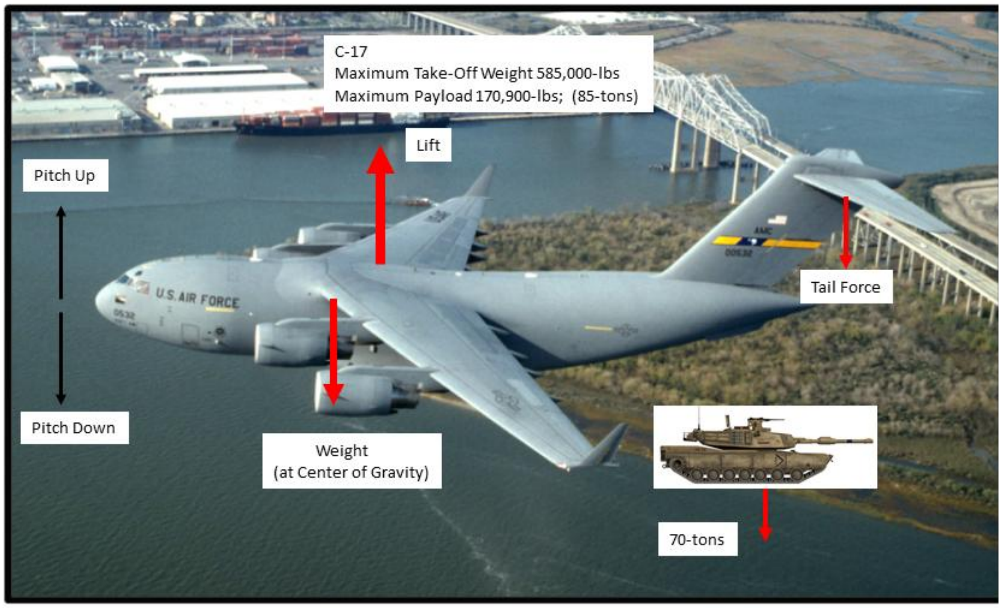
FIGURE 1:



Regrettably, markets under the baleful influence of central banks, have been subject to enormous 'load shifts' created by central banks. These central bank induced load shifts create imbalances that lead to markets surging skyward. Among the two best examples of the load shifts or imbalances created by the Federal Reserve are;

- The July 1927 Conference of Central Bankers
- The October 1998 'emergency rate cut after LTCM collapsed (October 1998)

Benjamin Strong was the president of the New York Fed in the years before the Great Depression. He is almost singularly responsible for asset prices unhinging themselves from reality and soaring toward the moon. The most spectacular example of this was a meeting he organized of the world's leading central bankers. The meeting was held in July 1927 on Long Island, and had a single purpose; to coordinate a world-wide policy of "loose money" to advance the interests of England.

The leaders of the central banks in France and Germany balked at the proposal. Strong dismissed the concerns expressed by France and Germany as well as the concerns expressed by many in the US banking establishment with the retort, that the interest rate cuts he had in mind would amount to little more than *"a little coup de whiskey for the stock exchange."* **(1)**

Of course, the animal spirits Strong thought would only run a little faster, ran completely wild. Strong became seriously ill and died in October 1928 at just 55-years old. In his absence, the Fed first tried a policy of 'moral suasion' to have banks stop loaning money for stock speculation . When that failed, they raised interest rates to reign in the stock market that was obviously spiraling completely out of control. It was to little avail and stock prices loosened themselves from any sort of rational basis.

At the valuations prevailing in October 1929, once selling began in earnest, the selling would soon feed on itself and prices would tumble - the market floated on a cushion of air.

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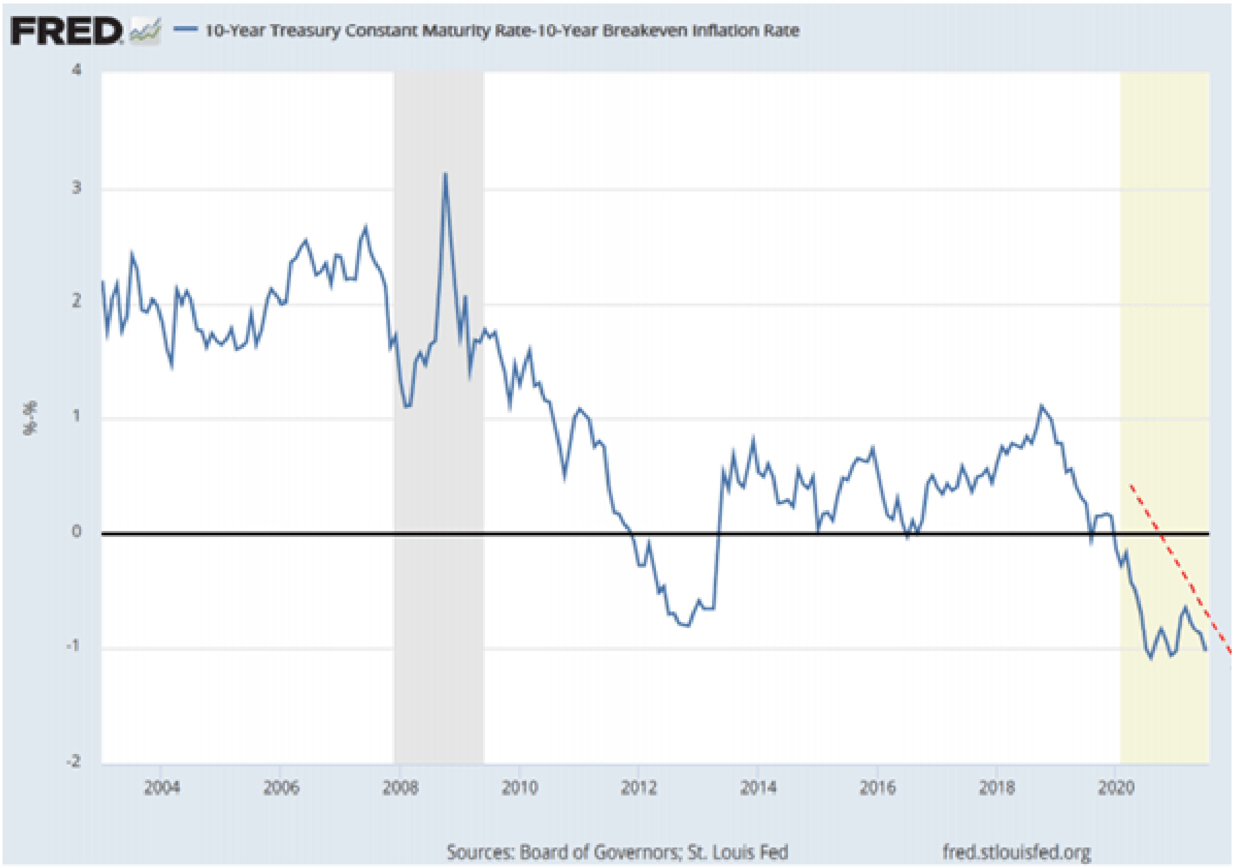
Jekyll Island), they already know that the Fed is as tied to the hip of Wall Street money and D.C. politics as an anchor is to a rotting ship.

Finally, and most importantly, if the Fed were truly "independent," then why has it been buying the near entirety of Uncle Sam's IOUs (Treasury bonds) for the last 18 months at *negative* real interest rates?



Biden: Very Dependent on the "Independent" Fed

Needless to say, Biden has publicly offered Jerome Powell "broad support" for another Fed term for one simple reason: The Biden Administration, like every administration since Eisenhower, wants a *dependable* rather than *independent* Federal reserve.

In other words, in a nation 1) whose manufacturing has been offshored, 2) whose workers are increasingly unemployed or on the dole, 3) whose **feudalistic top 10%** have disconnected entirely from the bottom 90%, and 4) whose entirely Fed-supported (and sky-rocketing) securities bubble is now the only reliable source of capital gains tax receipts allowing the U.S. to pay its interest expense on governmental debt… it's actually quite easy to see that the Fed is anything but independent of D.C. politics.

To the contrary, the Fed is now, and has been evolving for years, as not only the lender of last resort for America, but the "solution" of last resort in pretending that a debt-soaked nation can survive off more debt.

Sadly, Thomas Jefferson, Andrew Jackson and **many others** had warned us long ago that such **a toxic "solution"** was nothing more than the *undoing* of our system, not its *salvation*.

*"**I sincerely believe** that banking establishments [like a private central bank] are more dangerous than standing armies, and that the principle of spending money to be paid by posterity under the name of funding is but swindling futurity on a large scale."* —Thomas Jefferson

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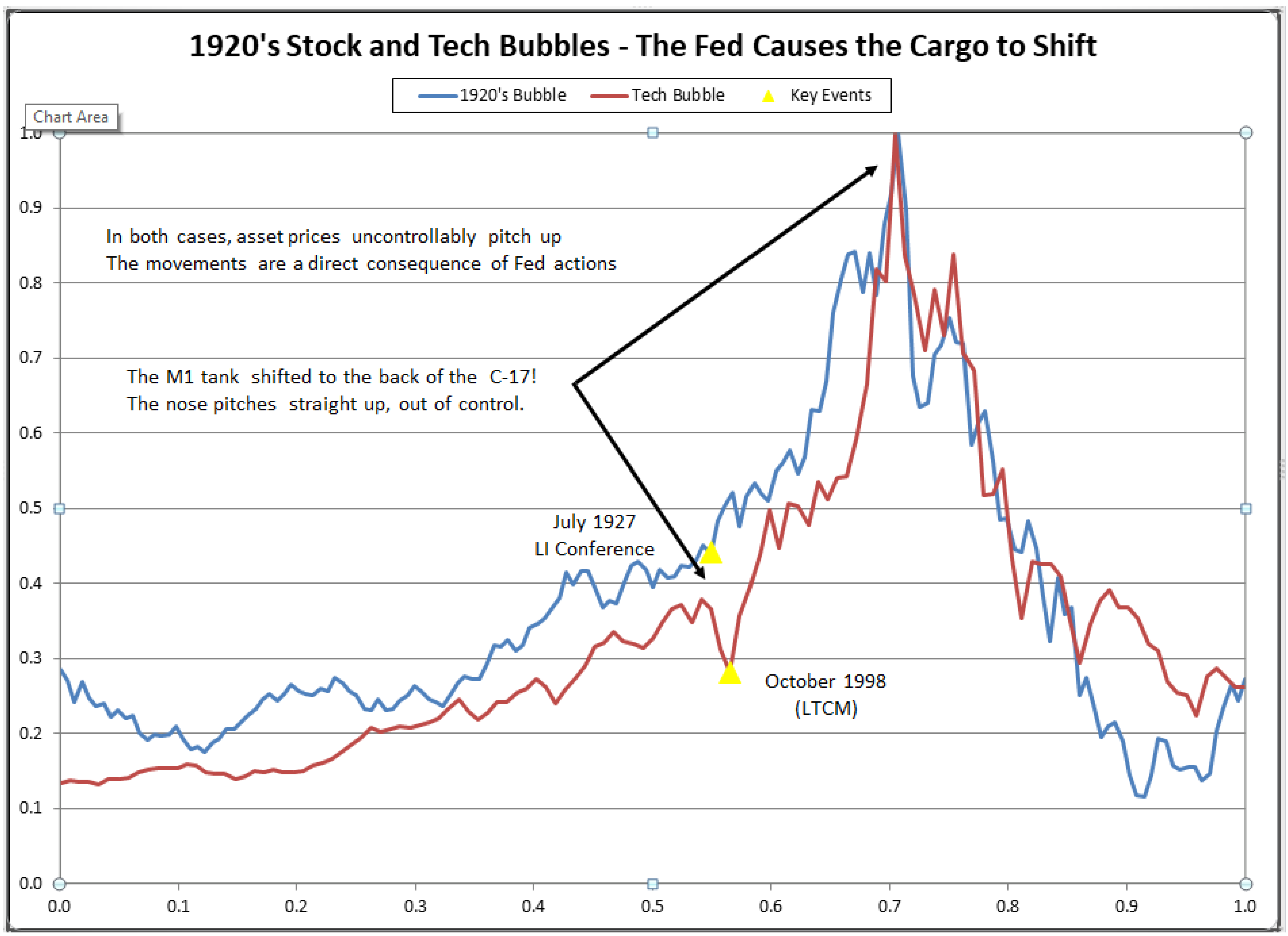
The same animal spirits that saw stocks only going up would soon become consumed with man's most basic emotion - fear; and that fear would send prices tumbling.

The Fed is not a 'learning organization' and duplicated nearly all of the July 1927 mistakes in October 1998. In September 1998, the hedge fund Long-Term Capital Management (LTCM) collapsed.

The Fed quickly organized a bailout and cut rates at its September 1998 meeting. However, the Fed of Alan Greenspan was not done. In what Bill Fleckenstein and Frederick Sheehan called *"one of the most irresponsible acts in the history of the Federal Reserve,"* **(2)**, on October 15, 1998 Greenspan cut rates between regularly scheduled FOMC meetings.

At the time of the surprise rate cut the NASDAQ was at 1611. In a little over a year, November 1999, the NASDAQ soared to 2967, a gain of 84%. In a final speculative blow-off the NASDAQ - doubtless fueled also by the passage of the Citigroup Relief Act - reached 5000 in March of 2000, a 70% rise in just the four months since November, or over 210% since the surprise rate cut sixteen-months earlier in October 1998. The enormous move came with a considerable headwind provided by raising rates. Exactly as in the 1920s bubble, the rising rates of the 1990s proved no match for the imbalances created by the Greenspan Fed. Indeed, as shown in Figure 2, the similarities between the 1920s stock bubble and the 1990s tech bubble are striking, right down to their excesses both being attributed to a central bank created imbalance.

FIGURE 2:



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"A U.S. central bank would represent the prostitution of our government for the advancement of the few at the expense of the many." –Andrew Jackson

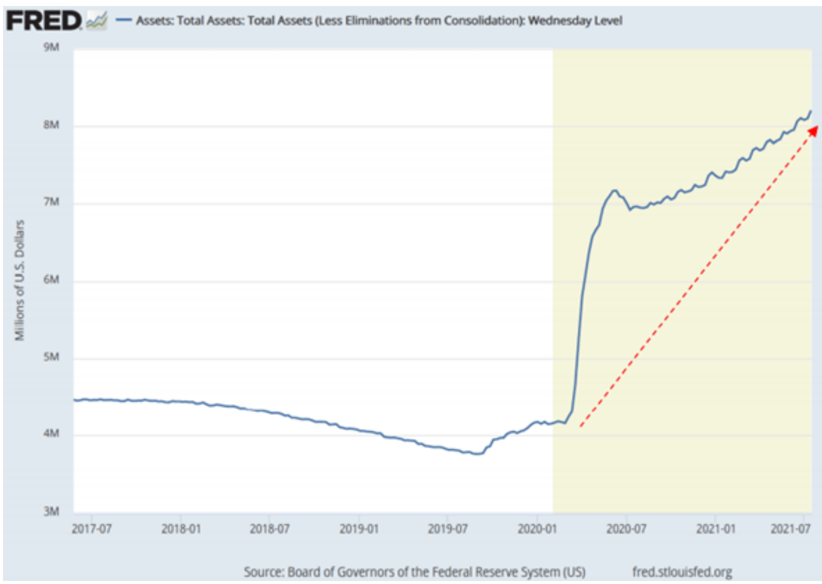
Following the Bread Crumbs to "What's Next"

So, there you have it. A few little reminders from history, securities bubbles and tax receipts of what I think about Presidential truth in general or Biden's "independent Federal Reserve" meme in particular.

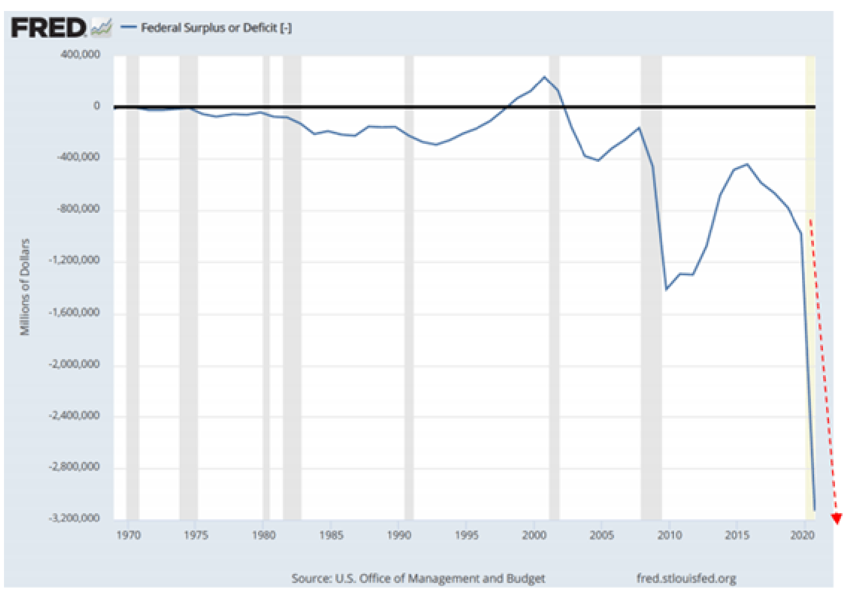
But for those thinking about currencies and markets, let me get less political and even more blunt: The blatant dishonesty, desperation and open absurdity of such financial leadership makes it far easier for informed investors to behave and prepare for a future laid out to us by the so-called experts.

Let's just follow the bread crumbs (i.e., data and math) and see where they always lead.

It's no great mystery to political administrations addicted to Fed money that they will be asking for even more of it:



And it's no great mystery that Federal deficits like this…



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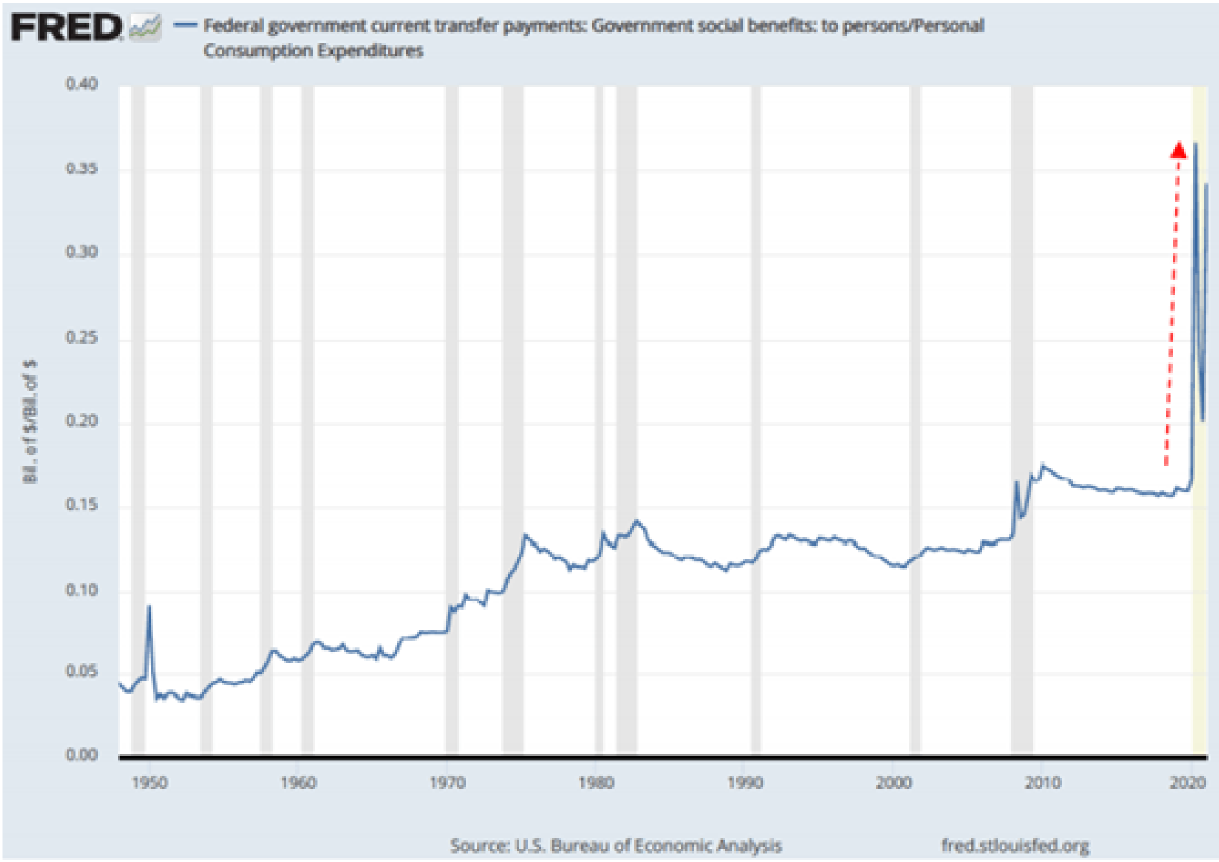
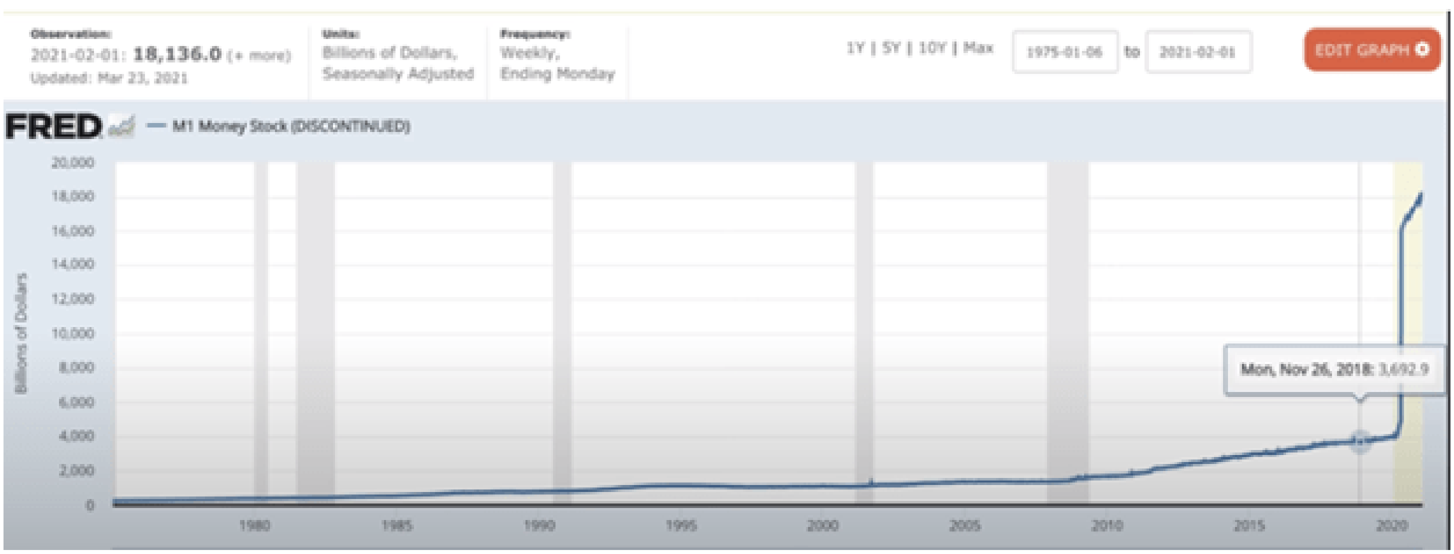
… will be ignored by the Don Lemon-like “journalists” of the world throwing soft-ball questions to soft-brained politicos like Biden, all of whom promise more free money to the [legitimately downtrodden masses]() like this…



…in order to get or stay elected. But expanding the money supply at astronomical levels like this…



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…doesn't help those same Wall Street-ignored and increasingly angry masses for long, as the invisible tax of inflation eats away at the dollars they earn, collect or try to save at negative rates of return.

All the Signposts Point to Gold

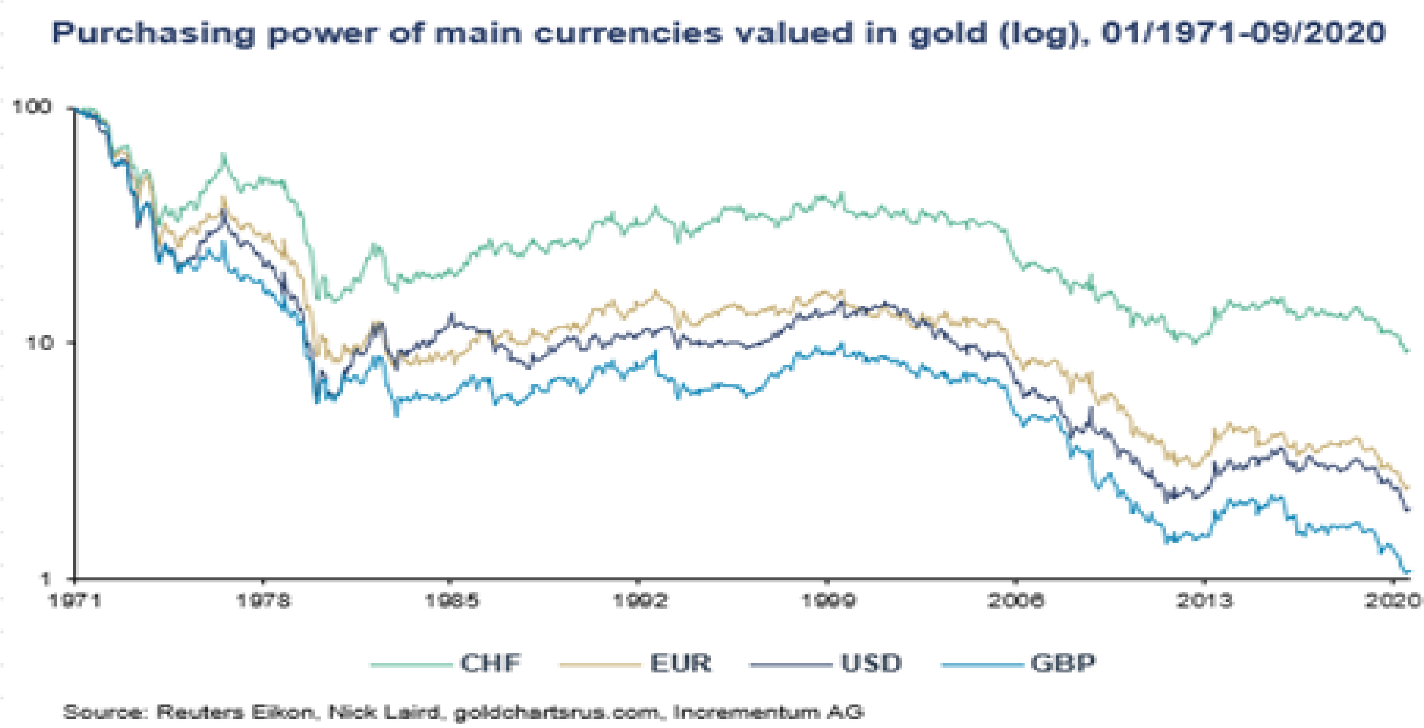
As we have stated over and over, all financial roads and conversations in such a perverse debt and currency backdrop turn to gold, not because we are gold bugs, but simply because the writing is all over the walls (or charts above).

Stated more simply and more bluntly, taking on more debt paid for with more fake money results in one simple reality: *The debasement of that money as a store of value*.

Period. Full stop.

Toward this end, the one chart which can't be overstated or repeated enough reminds us that gold can only trend further North for the simple reason that the fiat currencies in your wallet, bank account or 401K can only trend further South in a world awash in fiat currencies.

Again: Compared to a single milligram of gold, the major currencies are losing their war on value with each central bank mouse-click:



Choosing Between "Experts" or Facts?

In such a clear yet tragic setting, relying on the expertise or double-speak of the "experts" is an individual choice.

We get this too.

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CONCLUDING REMARKS

As discussed here, what really set markets soaring in the 1920s and the 1990s weren't falling interest rates. Instead, it was an enormous imbalance that Fed policies created in financial markets. These imbalances are perfectly analogous to a 70-ton M1 Abrams tank shifting to the back of a C-17 aircraft on takeoff.

Just as a 'load shift' on a C-17 will throw the aircraft out of balance and pitch the aircraft's nose straight up, Fed policies upset the market's balance and stock prices pitched straight up. The imbalances created by the Fed manifest themselves as the animal spirits that were convinced markets could only keep rising. A market driven by animal spirits will only stop going up when these animal spirits have exhausted themselves - and animal spirits, by definition, will always exhaust themselves.   A consequence of these animal spirits exhausting themselves, is, once they have done so, nothing remains under the market to support the high prices. As fast as prices rose, they fall even faster.

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As for me, I am, after all, an *evidence-based* cynic.

Nevertheless, the examples of outright fraud and dishonesty from the lips of such leadership can't be denied, brushed aside or debated, when the facts, quotes and numbers speak for themselves.

We've separately addressed this history of open charades masquerading as policies in the examples of **Greenspan**, **Powell**, and **Yellen** in particular.

Furthermore, we have been agnostic as to whether these policy makers served a left or right leaning administration for the simple reason that regardless of who is (or was) in the White House, the "independent Federal reserve" has been consistent in leaning our dying dollar, debt-soaked economy and artificially bloated markets further toward ruin with each passing day, mouse-click and misstatement.

The data above is not political. It's just data.

Our advice?

Follow the data's signs, not Powell or Biden's.

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July 30, 2021
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The Outstanding Public Debt

National Debt:
28,729,297,405,810
The estimated population of the United States is **333,196,310**
US citizen's share of this debt is
$86,210.00
The National Debt has continued to increase an average of
$3.8 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion