



## Investment Commentary by Roger Nightingale

The truth of a proposition has little to do  
with its credibility.

Robert Heinlein—but the credibility of the man proposing it is crucially dependent  
on the credibility of what he proposes.

13<sup>th</sup> August 2010

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Bernanke, like Greenspan  
earlier, keeps his forecasts  
under review.

The Federal Reserve Board may not be very good at forecasting the economy, but it's excellent at monitoring it. As a result, its errors are quickly recognised and its projections sensibly amended. Credibility is rarely prejudiced, therefore.

They're changed when  
necessary.

Other central banks are less accomplished. Many refuse to acknowledge misanalysis. As a result, their projections are unrealistic, and their authority low.

Last week, they were.

Last week, the Fed skilfully shifted position. It admitted that US job creation had been weak and that activity was faltering. The gap between current reality and earlier expectation was wide, and getting wider. Forecasts needed to be scaled back, and policy options reviewed.

That's because activity, far  
from revving up, is stalling.

In the event, the forecasts were changed relatively little. The Fed seemed to be assuming that the slowdown that had occurred hitherto wouldn't be reversed, but that it wouldn't be extended either. Hmph! That was possible, but it was much more likely that things would continue to deteriorate.

Credit will remain  
accommodative.

Investors were more interested in the Fed's discussion of future monetary policy. It was set to become more accommodative, it emerged. Quantitative easing would continue.

Will that remedy the debility?  
Maybe not!

The unstated presumption was that easier credit conditions were bound to help. Not so, of course. It depended on what had been causing the anaemia. If it hadn't been penal interest rates or scare liquidity, there was no reason to expect the changes to be helpful.

People don't want to spend; they prefer to save.

The Fed knew this. It knew that, to restore vitality, it had to identify the economy's inhibitions, and remove them. But what if they were psychological? What if consumers and businessmen weren't spending because they thought current problems were a consequence of excesses in the past? That was the nightmare. That spelt a replay of the thirties!

The nightmare of depression might become a reality!

Bernanke hasn't yet talked openly about the issue of depression. He hasn't wanted to exacerbate any deficiency of demand by scaring the general public. But it's likely he's mentioned it to the president.

Obama is scared.

It's possibly that which has made Obama behave so erratically in recent weeks. The man had said he'd like to be another Roosevelt. Be careful what you wish for! You may get it.

Central banks in Europe seem unaware of the problem.

Elsewhere in the world, many central banks are in a state of denial. The ECB and the BOE, for instance. Their forecasts are hopelessly optimistic. They ignore the business cycle on the one hand and the consumer's repudiation of debt on the other. The credibility of these organisations is already low, but it may go lower still.

Those in Asia only dimly conscious of it.

Japan's central bank has begun to recognise its problems in recent weeks. China's likewise. Both know their economies have become over-reliant on exports; that they're consequently vulnerable to declines in demand in the EU and US. They hope, officially, that a quickening pace of domestic sales will provide an offset. Both know, realistically, it won't.

Bonds understandably are soaring. Equities will follow.

Investors and politicians are worried. The former have less justification for their anxiety than the latter. Asset valuations will continue to rise. Currently, it's bonds that are making the running. Shortly, it'll be equities again.

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