The Fed Has a 100% Error Rate

Much like the terrorist attacks of September 11, 2001, the coronavirus has revealed an overvalued market to investors. The blame for this overvaluation lies with a Federal Reserve that has so distorted interest rates, the view of risk has become clouded. A few years ago, I wrote:

> *In End the Fed, Ron Paul writes, "The essence of the Federal Reserve Act was largely unchanged from when it was first hatched years earlier. With a vote by Congress, the government would confer legal legitimacy on a cartel of the largest bankers and permit them to inflate the money supply at will, providing for themselves and the financial system liquidity in times of need, while insulating themselves against the consequences of bad loans and overextension of credit."*
>
> ## *Congress' Most Tragic Blunder*
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> *Paul continues, "Hans Sennholz [Money and Freedom] has called the creation of the Fed 'the most tragic blunder ever committed by Congress. The day it was passed, old America died and a new era began. A new institution was born that was to cause, or greatly contribute to, the unprecedented economic instability in the decades to come.'…*
>
> *"In 1912, Ludwig von Mises wrote a book called The Theory of Money and Credit that was widely acclaimed all over Europe. In it he warned that the creation of central banks would worsen and spread business cycles rather than eliminate them."*
>
> ## *The Fed Has a 100% Error Rate*
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> *John A. Allison is president and CEO of the Cato Institute and former chairman and CEO of BB&T. During his BB&T tenure, John was the longest-serving CEO of a top-25 financial institution. In The Financial Crisis and the Free Market Cure, John*

explains that the primary sources of the massive misallocations of resources regarding the recent financial crisis are (1) the Federal Reserve, (2) FDIC, (3) Government housing policy, and (4) the SEC. As John points out, "In 1913, the monetary system of the United States was nationalized. The federal government owns the monetary system. We do not have a private monetary system in the United States." John Allison continues, "In my career, the Fed has a 100% error rate in predicting and reacting to important economic turns."

My friend John Allison's words carry a special urgency today. The Fed has a "100% error rate." It's true. Every time the Fed sees a problem, it ladles out more monetary stimulus, driving asset prices upward and exaggerating the next meltdown.

The Fed's wild responses to the slightest declines in stock market prices have become a real risk for which investors must account.

My family-run investment counsel firm has developed its own strategy for responding to the Federal Reserve's recent actions. To read about them in detail, click here for the latest monthly client letter written by my son Matt, President and CEO of Richard C. Young & Co., Ltd.

Each month, Matt covers the strategies we employ at Richard C. Young & Co., Ltd. If you would like to be alerted each time a new letter is released, please click here to sign up. The letter is free, even for non-clients.

How to Deal with a Crisis You Can’t Predict

Do you consider yourself well-prepared? There’s no predicting some scenarios— the so-called Black Swans. Below is a troubling illustration I wrote some time ago of just how bad facing the unexpected can feel:

> ## *Knock, Knock*
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> *It’s 1:30 a.m.—pitch black on your suburban porch. A woman whom you do not recognize is at your front door, while an unfamiliar car idles in your driveway. Peeking out, you talk through a side window to the interloper, who explains that you had called her, and here she is.*
>
> ## *Your 1911 Handgun*
>
> *You, of course, had not called her, and, as a phone call goes into the police, you—somewhat dazed and alarmed—consider the feasibility of reaching for your 1911 handgun. Not long back, in broad daylight and only a couple of miles from your house, there had been a raft of break-ins featuring families immobilized withduct tape (while robbers searched through belongings). Residents of the general area are on heightened alert.*
>
> ## *Sweaty Palms*
>
> *I don’t know about you, and I consider myself well-prepared and well-defended, but this type of “awakened out of a sound sleep” early a.m. door-knocking scenario makes my palms sweat. This is a true story relayed to me just days ago.*

Is This Your Blueprint?

So we are looking at risk preparation here—no advance prep, no handy 1911, no nothing. Kids asleep upstairs, a terrified wife nearby, and you, with a blank stare, have a big goose egg on your preparation ledger. Is this the blueprint for you and your family? I know for a fact that this condition exists for a lot more families than not.

Black Swans

I write to you about financial and personal security, with the emphasis on risk analysis for both. For any given scenario, the first step is a complete understanding of all the elements of risk. Unfortunately, the game breakers are all Black Swan events that you cannot time accurately in advance. Nonetheless, preparation is warranted to cover the unexpected.

A home invasion is one of the most frightening and surprising events a family can endure. Also on the list of the terrifying and unexpected is the current global pandemic.

Few, if any, could have predicted today's coronavirus and the economic turmoil it would cause. But that doesn't mean nothing could be done to prepare.

Investors especially had the chance to prepare themselves for the unexpected. Minimizing risk in portfolios with diversification is the best way to prepare your investments for uncertain times.

Each month at my family-run investment counseling firm, Richard C. Young & Co., Ltd., my son Matt explains our strategies for diversification and minimizing investment risk in our client letter. If you want to understand the methods used by one of America's top-ranked investment advisors to address risk, sign up for a monthly alert for the client letter by clicking here.

It’s free, even for non-clients, and loaded with information you can use to help achieve your investing goals.

Prepare, even for those crises you can’t predict.

Dividend “Suspensions” Not Dividend Cuts Coming Fast

Dick Young, Paris, France

The liberal electronic and print media will shortly be howling — with cartoon-size bold headlines — about dividend cuts.

We just began the second quarter of the year. Third-quarter earnings reports will, thanks to the lying Chinese, be breathtakingly ugly. And the media will be out in full force glomming on to disruption.

Words like *recession* and *depression* will fill the media channels. Greedy and grasping stockbrokers will be out, in full-scale hyena mode, yelling, “*sell, sell, sell*.”

Serious, long-term, compound interest focused mavens will follow my lead by engaging in a quiet, month-long reallocation of assets.

Dick Young – a Compound Interest Maven

During the month of March, I positioned myself to accumulate assets others were eschewing or dumping en masse. Included on my watch list are stable long-term dividend payers temporarily placing their dividend payouts on holiday. Makes good sense to me. Business conditions are easily weak enough to make such a short-term stabilizing strategy a wise move.

Make it as good a day as you can.

Thanks to Donald Trump’s foresight on the scourge that is China, the folly of open borders, the mathematical *naiveté* of free trade, and the “America Last” fraud of globalization, America will snap back like a catapulted Navy Super Hornet off a carrier deck.

You can count it.

U.S. Navy photo by Mass Communication Specialist Seaman Apprentice Ignacio D. Perez/Released) 130424-N-TC437-663

My Three-Week-Long Investing Program

In my personal portfolio, I am ramping it up over the month of April into May.

My own largest fixed income holding (individual bonds, while clearly a superior option are not ideal for me as I am on the road and out of touch at annoying times) a full-faith-and-credit-pledge GNMA's-centric fund is ahead by 3.0%, or an annualized 12.0%. I am happy with this.

GLD, one of my gold proxies is ahead by 6.5%, or an annualized 26%.

My Swiss currency proxy (I have been investing in Switzerland since the early seventies. Click to the Swiss Way) is up 1.4% YTD. Encouraging.

All in all, I am pleased and have recently been concentrating on the energy sector where Russia, Iran and the Saudi's are getting killed and American shale assets and big energy dividend payers are a steal.

Let's see where prices are in just five years and who the proven winners will have been.

My own buying program will continue at least into the summer.