

**Thank God It's Friday!**

**August 28, 2009**



The announcement this week from President Obama that he plans to re-appoint Ben Bernanke as Fed Chairman is significant on many fronts, and we feel much better for it. The obvious benefit is keeping the same troubleshooter in place that has been fighting the economic crisis since its inception. Some critics claim that Bernanke, as a member of Alan Greenspan's Fed Team, was actually part of the problem in creating the crisis. We think this is misguided. There is no question that the Federal Reserve played a major role in the artificial inflation of assets early in the decade, particularly in housing, by keeping interest rates historically low. In fact, Greenspan's legacy has been tarnished in the wake of the economic crisis.

But, similar to Obama, Bernanke inherited a ticking time-bomb. He acted swiftly, decisively and creatively to prevent further blow-ups that threaten our financial system. He showed leadership, when it was needed most. Every Recession has its uniqueness, but this economic crisis that we are recovering from not only rivaled the Great Depression, but the nature of the rampant use of leverage and derivatives effectively formed the tentacles that put the strangle hold on our financial infrastructure. This is really complex stuff that required creative critical thinking to combat what felt like a potential take-under of Capitalism. If you remember what February and March felt like, the unthinkable nearly became reality.

Chairman Bernanke's response has been criticized in some circles, but it's easy to find fault when you're not on the frontline and have the benefit of hindsight. A Global Depression has been avoided and our financial system is on-the-mend thanks in large part to the leadership and action of Ben Bernanke. He is smart, he has integrity and we think he has the best interest of the American people at heart. His interview on 60 minutes in March really captures the man. Click here if you would like to see it: (<http://www.cbsnews.com/stories/2009/03/12/60minutes/main4862191.shtml>)

The Fed has thrown substantial amounts of money into the system, like Drano into clogged pipes. Federal Funds rate remains at zero. The response has been swifter than most anticipated, and liquidity has greatly improved. So, the next big challenge for Bernanke's Fed is to begin raising those interest rates in the face of this recovery. This will be quite controversial, and will require strong judgment that the balance between deflation and inflation has shifted. We expect the first interest rate hike to occur in the first half of next year.

We need big picture; long-term thinking to improve what ails us. Part of our nation's problems resides from the narrow focus from Washington and Wall Street. Washington sees things in terms of election cycles and party politics are the driver. Wall Street is driven by corporate earnings which occur 4 times per year, and have investors focused quarter-to-quarter. The Federal Reserve is an independent entity within the US Government, but even that's been at risk as concerns of a potential Bernanke replacement were politically driven. Four more years of Ben enhances the prospects of political independence at the Fed.

The big news is knowing Bernanke is going to be on board for another 4 years. From our perspective, it's bigger news that Bernanke isn't being replaced. The Market doesn't like uncertainty, and Bernanke is a known commodity now, and deserves credit for a speedy recovery. The Market likes Bernanke. We just avoided another major financial disaster, and few people are talking about that.

By: Mike Frazier