

**Thank God It's Friday!**

**February 19, 2010**



In a surprise move, the Federal Reserve took a baby step to exit from crisis mode by raising the "Discount" rate from 0.50% to 0.75%. You may recall the Discount rate is the amount that the Federal Reserve charges banks to borrow. In this event it is important not to confuse the Discount rate with the Federal Funds rate. The Federal Funds rate is the overnight rate banks lend or borrow from each other and has remained unchanged.

During the credit crisis, banks had to access the Fed Discount window because bank lending came to a standstill as nobody trusted each other, which effectively froze the credit markets. It's important to point out that most businesses and individuals borrowing rates are based on the Federal Funds rate not the Discount rate. Therefore, most of us aren't directly affected by yesterday's rate increase. In fact, home mortgages have dipped below 5% this week.

The Discount rate was in high demand during the fall of 2008 amidst the Credit Crisis. The Fed not only continued to lower the Discount rate, but also extended the term up to 90 days from an overnight loan. As the credit markets have improved since then, there is less need for banks to take out emergency loans. The Fed made it clear in its release that they do not intend to raise the Federal Funds rate anytime soon. We see yesterday's move as a sign that the worst of the economic crisis is over. The Fed wouldn't begin raising interest rates if they weren't comfortable that a double dip recession was off the table. We don't see this as the beginning of a tightening cycle, merely the beginning of a long path back to normalcy.

The Markets flinched at the news at first, but ultimately seemed to embrace the concept that this action is constructive and healthy and thus, another monumental step on the road to recovery. In fact, it was the best week on Wall Street in 3 months and we are back to even for 2010 on the DOW. It's been anything but boring. Chinese New Year ends this weekend, and the Year of the Tiger should prove to be eventful.

Gung Hay Fat Choy!!  
Mike Harris