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Arguably, the event which will have the greatest impact on your portfolio was the September 18th Federal Reserve Meeting. Fed Chairman Bernanke announced that the Fed would continue the monthly bond purchases of $85 billion, a *de facto* printing of $85 billion new dollars each month. This policy, which began in June of 2012, has been the mother of all government stimulus plans. One of the stated goals of this stimulus was to get unemployment down to 6.5%. According to Mr. Bernanke, "at 7.3%, the unemployment rate remains well above acceptable levels." (We could have an interesting discussion on what the true unemployment rate actually is - maybe a future newsletter topic.) All this new money was designed to stimulate the growth of the U.S. economy. Mr. Bernanke continued: "The Fed has been over-optimistic about growth. It appears that the potential rate of growth of the economy has been slowed ... by the recession and the financial crisis ..."* Bottom line? The Fed will continue printing $85 billion / month until they reach their objectives, or Mr. Bernanke comes to his senses, whichever comes first.

Mr. Bernanke's monetary policy is responsible for keeping short term interest rates at historic lows, but it is not holding down the longer term rates. In September of 2012, the benchmark 10 Year Treasury was at 1.81%. By September 25th, the rate had risen up to 2.79%, a whopping 54% increase over the past 12 months** . Your equity holdings have benefitted from Mr. Bernanke's monetary policy as many of them have posted double digit gains over the past year (with interest rates at historic lows, money has flowed into the stock market chasing higher yields). We are being watchful (tightening up the trailing stops on your equities and profit taking), because there are dark clouds on the equities horizon. Historically, as interest rates rise, stock prices tend to fall. The rational being if you can earn 4% in a virtually risk free CD, why would you put your money into stocks? That being said, short term CD rates are still less than 1%, but 10-20 year maturities have been creeping upwards. We will start to buy CD's in your account when rates hit 4.00%. Rest assured, we monitor interest rates every day.

Now, my favorite topic, gold and silver. Both of these precious metal have gotten clobbered over the past year, ouch! Nonetheless, I remain a gold bug and a silver bug. Within the last year, gold has fallen more than $500 / ounce (silver is down by over $20 / ounce). In September, we saw that the price of gold was up against all four of the major world currencies (US dollar, Euro, British pound and Japanese yen). Historically, this alignment has signaled the beginning of a bull market in gold. Gold (and silver) are more hated than anytime since 2008. This is the most bearish traders have been on gold since 2005 (in the 14 months following, gold rose by 72%). In 2008, with similar extreme bearish sentiment, gold rose 50% in the trailing 12 months. In summation, the price of gold tends to go up when everyone expects the price to fall***. In the spring newsletter, I discussed owning gold and silver as a hedge against economic events such as inflation or a stock market crash. Let me add protection against a falling dollar to that list. The best opportunity to buy anything is when everybody else hates it!

As always, if you have any questions or concerns regarding your portfolio, please give me a call.

John Buetow

* Transcript of September 18 Federal Reserve meeting
** Bankrate.com September 30, 2013.
*** True Wealth Systems. September, 2013. Past performances do not guarantee future results.