It's Not My Fault

By Emilio Vargas
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You don't need a Ph.D. in economics or a sophisticated computer model to figure out bubbles. Just look at their recent history:

- From 1991 to 1993 the Federal Reserve Bank created liquidity to help overcome the recession and real estate problems of that era. As a result we got a bubble and crash in bonds. 1994 was the worst year for the bond market since 1927.

- From 1998 to 1999 the Federal Reserve Bank created liquidity to help overcome LTCM and the fear of Y2K. As a result we got a bubble and crash in internet, media, and telecommunications stocks.

- From 2001 to 2004 the Federal Reserve Bank created liquidity to help overcome the recession caused in large part by the collapse of the bubble above. As a result we got a bubble and crash in real estate.

- From 2008 to the present the Federal Reserve Bank is creating liquidity to help overcome the recession and banking crisis caused in large part by the collapse of the real estate bubble. As a result we are building a bubble in numerous risk assets, particularly developing markets.

Central bankers want to claim the failure to recognize bubbles and deal with ensuing crises is a problem with regulation. What they are really saying is that we create the liquidity, but we cannot control where it ends up. The simple fact is no amount of regulation will work. Private sector bankers, accountants, and lawyers are more agile than regulators. They will work nights and weekends to engineer ways around regulations and get the money where they want it.

Man up, central bankers. Admit that you are part of the bubble-inflating process. The first step to addressing this boom and bust cycle (which may be getting shorter) is to properly identify all the causes. Don't own up to please others; do it

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for yourselves, because if you don't you are likely to find that Congress may eventually strip you of your power. If not, the currency markets will.

Emilio Vargas is a pseudonym. The author is a teacher and former money manager.

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