

Running Out of Bullets

January 12, 2004

We have, from time to time, referred to the trend in money supply (M3). Although we are not monetarists of the Milton Friedman ilk, we do believe that money supply is indicative of economic activity in the future. The following two charts from www.economagic.com paint an ominous picture.

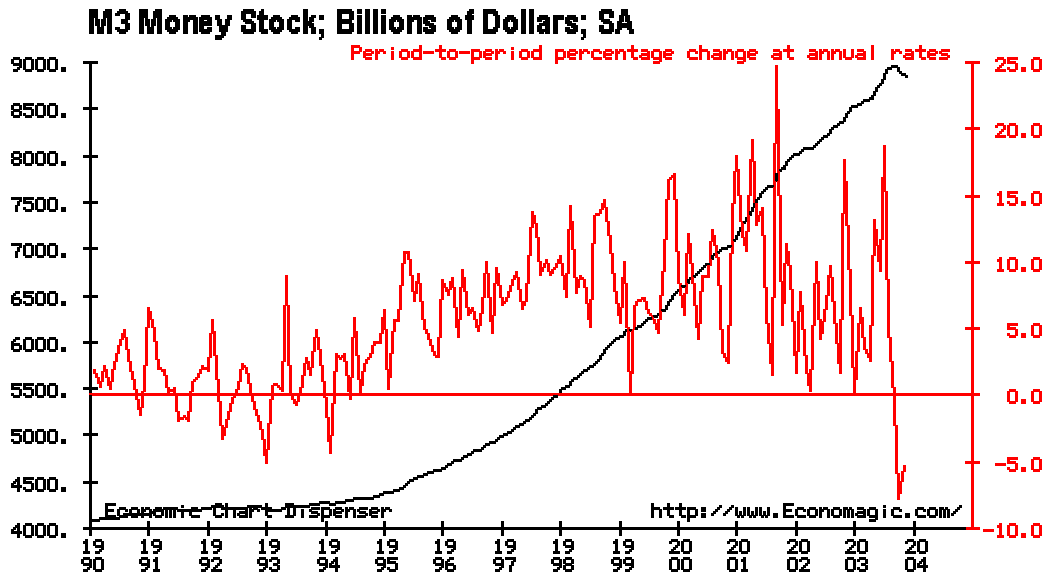


Chart 1 indicates that money supply is contracting at the sharpest rate in over 40 years. Every recession we have ever had was preceded by a “credit crunch.” This one is the worst kind in that it’s occurring under easy, rather than tight, Fed policy.

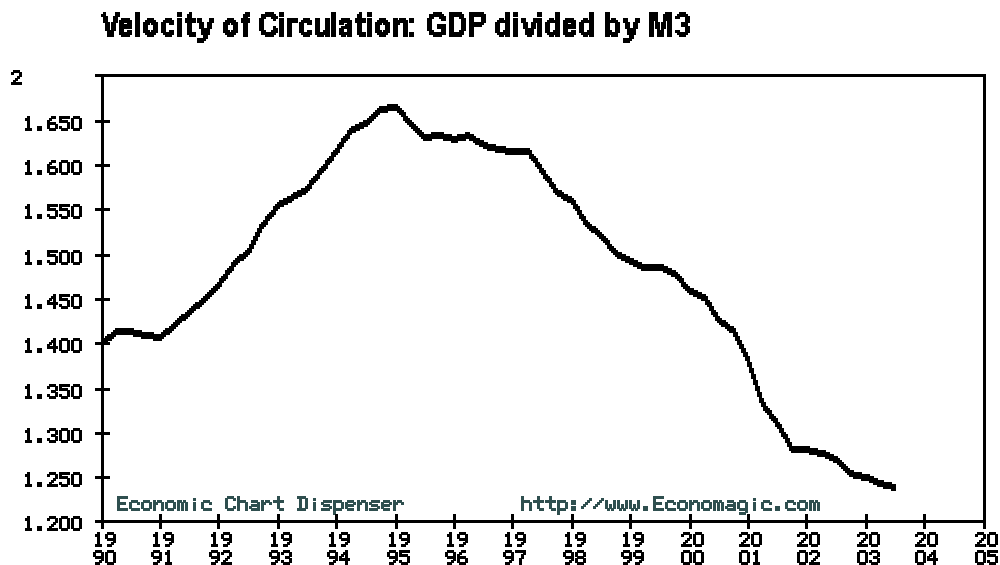


Chart 2 indicates that the turnover of the existing money supply is becoming less and less. Think of this as store inventory. What happen when inventory does not sell (turnover)? The answer is business is not good and getting worse.

Just think of it: the Federal Reserve and the GSE's (Fannie & Freddie Mac) have done most everything they can over the past 3 years to pump up the money supply – but it's not working and this my friends is not good. Do not let this recent bear market rally in stocks get away from you! It just may be the time to sell this stock market rally!