



The Fed's Quantitative Easing *Explaining the Term*

Ben Bernanke recently announced that the Fed will pump another \$600 billion into the economy in a new round of 'Quantitative Easing' or 'QE2.' We at DeWaay Capital Management feel every investor should have a grasp of what quantitative easing entails and what it could mean for our current market environment.

Put simply, Quantitative Easing is the method by which the central bank increases the money supply. Historically this action is only taken when interest rates cannot be taken any lower, as is the case in our current market environment. The quick-and-dirty explanation is this: Quantitative Easing is a way for the Government to bolster the number of U.S. dollars being used in the economy. More U.S. dollars competing for the same set of services means, in theory, that personal income as well as the GDP should increase. Theoretically, more bills floating around for a fixed amount of goods also means inflation at some point in the future.

It is important to keep in mind that this is a simplified explanation of a very complex topic. Commonly referred to as 'printing money,' the practice actually involves crediting bank accounts electronically. In addition, Fed Chairman Ben Bernanke disagrees that the central bank's action can be purely defined as 'quantitative easing'

"Our approach – which could be described as 'credit easing' - resembles quantitative easing in one respect: It involves expansion of the central bank's balance sheet. However, in a pure QE regime, the focus of policy is the quantity of bank reserves, which are liabilities of the central bank; the composition of loans and securities on the asset side of the central bank's balance sheet is incidental." – Address to London School of Economics 1/13/09

One of the primary fears is that the central bank's efforts to offset deflation will eventually cause hyperinflation. DeWaay Capital Management feels that the current interest environment and high unemployment rate will prevent this kind of runaway inflation any time in the near future. Political factors often lead to the kind of panic that causes hyperinflation. For example, if the general public stopped believing the U.S. Dollar was a store of economic value and started to spend their money before it lost all value, it is likely hyperinflation would occur. It is our belief that this event is highly unlikely given current circumstances.

We encourage you to learn more about the U.S. Dollar and its' current standing in the marketplace. Contact your Relationship Manager and ask any questions you might have about the U.S. Dollar, the Federal Reserve, and the various effects on the global economy. Call us locally at 515-224-9861 or toll free at 800-722-9861.