Memorandum

To: Clients, Friends, Family & Associates of ProActive Advisory
From: Mark Wyssbrod, Managing Member
Date: April 16, 2015
Re: Odd actions in our economy

In this memorandum you will receive information about the following:

- Printing money leads to inflations, not deflation?
- Lower prices reduces output, not increases it!
- Lower interest rates for less risky borrowers

Please contact me should you have any questions. Weird occurrences seem to happen from time to time in our economy, no (April) fooling!

Printing money leads to inflation, not deflation
Economic theory: Increasing liquidity, printing money, leads to inflation.

Current reality: Increasing liquidity lead to building out capacity to increase supply. The increase in supply without an increase in demand has led to a deflationary environment.

Lower prices reduces output, not increases it!
Economic theory: A reduction of price reduces economic output and shifts it to more profitable sectors and ventures.

Current reality: Oil producer increased output as prices sank by 50%. The oil producers are levered to such a degree that many of them have been force to increase output in order to keep revenues (cash flow) high enough to cover debt payments and overhead.

Lower interest rates for less risky borrowers
Economic theory: Higher quality borrowers receive lower interest rates; higher risk borrowers receive higher interest rates.

Current reality: Borrowers are being subsidized for taking higher risks than they realized via low interest rates. Borrowers are being enticed to incur long-term debt at low interest rate in return for unrealized significant risk and volatility in assets.

Side tangent: The super minority of individuals who sacrifice in order to save and who are risk adverse are being punished for good character traits by receiving minimal interest payments on their savings. These individuals may begin wondering if sacrificing and savings is in their best interest.

Bad news lowers markets; good new raises markets

Economic theory: an increasing economy increases the value of assets

Current reality: Bad news is good news and good news is mostly good news, but can be bad news. Are you confused? Bad news means result in the central banks around the world continuing with low interest rates and increasing liquidity. These two items have boosted asset values in the short-term. Good economic news would result in central banks around the world potentially increasing interest rates and resulting in the end of current easy money policies, this may make investor nervous and sell assets; thus good news may result in poor market performance. The poor market performance will most likely coincide with when many individuals become comfortable enough to being investing in the market once again.

Conclusion

The central bank policies from around the world are creating an environment in which the modern world may have never seen before. The result is a widening disconnect between economic many economic theories and current reality. These short-term anomalies may be due to the excessive liquidity and debts created by the US Federal Reserve and other central banks around the world. If the economic theories economist relied on for decades and centuries are in fact true, a day of reconciliation is in our future.