“It’s déjà vu all over again.”

Lawrence Peter **"Yogi" Berra** (May 12, 1925 – September 22, 2015)

“Yogi Berra, one of baseball’s greatest catchers and characters, who as a player was a mainstay of 10 Yankee championship teams and as a manager led both the Yankees and Mets to the World Series — but who may be more widely known as …issuing a seemingly limitless supply of unwittingly witty epigrams fondly referred to as Yogi-isms — died on Tuesday. He was 90.”

New York Times, September 23, 2015

Sadly our collective future **‘ain’t what it used to be’**. In honor of the passing of the late baseball legend Yogi Berra, I have decided to build this month’s *Perspective* around a collection of his so-called Yogi-isms. I believe the Hall of Famer would approve.

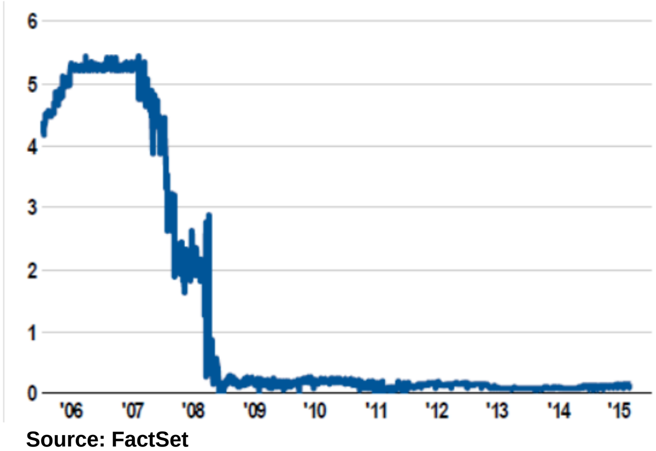
It is vexing (Alanis Morissette might say ironic … incorrectly) but before the news broke Wednesday of Berra’s passing, his ‘déjà vu’ quip was top of mind for me given the Federal Reserve’s decision to again postpone raising interest rates, effectively kicking the proverbial tightening can down the road once more.

I must admit I was not exceptionally surprised by the decision, and neither were the markets for that matter (predictions regarding the probability of a hike had generally been split down the middle). If I had to describe a visceral response, however, it would be disappointment. I feel like the Fed missed an ideal opportunity to act. With this latest deferment it is very possible the window for a hike in 2015 has been closed — and the earliest we may see a raise now is early 2016… if not beyond. There is no meeting in November (Thanksgiving), and after that comes the December 16th gathering, when the calendar — and Treasury market liquidity for that matter — is simply not favorable for a rate hike. Could they move then? Possibly, but I’m not holding my breath.

“If you don’t know where you are going, you might wind up someplace else.”

The bottom line is that the Fed has kept its key funds rate at near zero (ZIRP) since late 2008, for more than seven years, and for the moment it looks like it will stay that way for the foreseeable future. I am beginning to feel like this is a mistake, and the longer we head down this path the further we are from where we need to be. “No very deep knowledge of economics is usually needed for grasping the immediate effects of a measure; but the task of economics is to foretell the remoter effects, and so to allow us to avoid such acts as attempt to remedy a present ill by sowing the seeds of a much greater ill for the future.” Ludwig Von Mises (1881 – 1973) *Kirzner, Israel M. Ludwig von Mises: the man and his economics (2001).*

U.S. Effective Federal Funds Rate: 12/30/2005 to 9/23/2015



Source: FactSet

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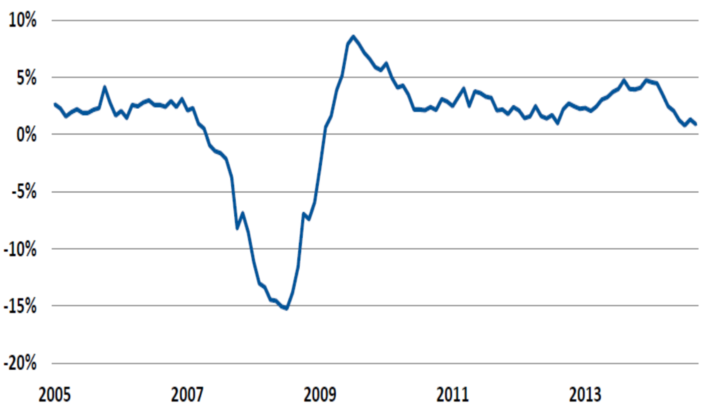
While lowering the rate initially was intended to provide support to an economy reeling from the Great Recession, and applauded by most economists at the time as the right thing to do, many of those same economists today are questioning its continued utility — as am I. While ZIRP initially provided much-needed liquidity during the crisis and a 200+ percent boost to major stock market averages, any associated economic growth that Bernanke et al. may have anticipated has yet to really materialize. For the most part output has remained tepid at best, and many corporations appear reluctant to commit huge sums of capital to their core businesses, instead plowing trillions into stock buy-backs, dividend hikes and M&A.

US Industrial Production, YoY%

December 2005 to August 2015



Source: Federal Reserve Economic Database

Bear in mind, this Fed is comprised largely of academic Keynesians, and it is their belief (hope) that the thousands of economic models they have created with their staff of hundreds of PhD. economists, based on theory versus real-world experience of course, will lead the world down a path towards blissful normalization. Forgive my skepticism, but I feel like we've all been down this road (pun intended) before. It's like boxer Mike Tyson once said, "everybody has a plan until they get punched in the face".

That is to say, perhaps it is naïve to expect these best-laid plans to work as predicted, given that they are based on theory and as such do not reflect the complexity and depth of the billions of economic reactions and participants influencing market behavior every day. The only way the Fed can build a model to describe such complexity is to assume away the real world – to impute market motives and relationships based on an implicitly imperfect, academic understanding of how things work and interact.

To me this is not a realistic expectation. Even if we could plan our way back to sustained economic prosperity, a monetary instrument by itself already at its lower bound — the proverbial piece of string — is not enough to resolve growth problems in the developed economies; problems driven by fiscal shortcomings and a decade's long trend toward credit accumulation.

At a minimum we need fiscal instruments — government budgets, tax policies, and prudent regulatory policy — to remedy what is primarily a fiscal problem.

Yellen's predecessor Bernanke knew this and said so explicitly: "…monetary policy is no panacea. It can be used to support stronger economic growth in situations in which, as today, the economy is not making full use of its resources, and it can foster a healthier economy in the longer term by maintaining low and stable inflation. However, many other steps could be taken to strengthen our economy over time, such as putting the federal budget on a sustainable path, reforming the tax code, improving our educational system, supporting technological innovation, and expanding international trade."

Indeed, from an Austrian view, the primary reason we are in this position of yet again wondering why massive liquidity has not stimulated growth is because of…well…massive liquidity! That is to say the policy measures implemented are the same policies that put us here in the first place. In the simplest of terms it is like robbing Peter to pay Paul. Austrians would say that by using artificial stimulus to smooth the economy when things are a little rough simply postpones the necessary corrections, therefore making the pain that much more severe when the bill finally comes due. Essentially, they would suggest that ultra easy monetary policy discourages the structural adjustments that are necessary at all levels, whether governments, banking, corporate or households. In effect, zombie companies and governments are kept alive, and the financial sector is encouraged to misallocate resources to speculative plays. Sounds somewhat familiar…no?

So the question remains, without any obvious economic benefit, is maintaining a ZIRP today a good idea, or is not raising rates doing more harm than its intended good? I suppose that depends on perspective and opinion. Certainly from the perspective of the many retirees who have not earned much on a lifetime of bank savings over the past decade or so, the answer is an emphatic yes. Of course it is not solely mom and pop feeling the interest rate pain, but many others as well. It is the pension funds that are having difficulty growing assets quickly enough to meet exponentially growing liabilities, the markets that have been hamstrung in terms of the ability to naturally and efficiently allocate capital, and the strong companies forced to compete against businesses kept alive artificially by cheap credit. In other words, what was once a medicine for stimulating growth may in fact today be acting as a poison. Now that Ms. Morissette is truly ironic!

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“You can observe a lot by watching.”

Lastly, some observations: In terms of what we can anticipate going forward with regard to market behavior, the global economy, and the prospect for growth, the outlook is perhaps more clouded today than it has been in a generation. As we noted, over the short term the QE experiment succeeded in staving off further contraction and buoying the financial markets. Longer term its utility and impact is unclear. Presumably the Fed believes the developed world will fully grow itself out from under its mountainous pile of debt and unfunded entitlements…seems optimistic to me. There are many that argue the program served to only delay the inevitable, that the fundamental issues that caused the recession have not been addressed, and that eventually the U.S. and other indebted nations around the world will be faced with the prospect of defaulting on obligations in some form or other. Only time will tell what the lasting impact of QE will be.

In the meantime, perhaps the only thing almost everyone agrees on – and a view that we are comfortable in endorsing with a high level of confidence as well – is that the future will bring more volatility. And, from an investment management perspective, we believe portfolios should be positioned accordingly – with an emphasis on risk mitigation, tactical asset allocation and true benchmark agnostic active management. A good dose of hope won’t hurt either; after all **“it ain’t over till it’s over.”**

Thanks for reading.