Words of welcome for Mr. B

As new chairman of the Federal Reserve, Ben Bernanke follows a man who needs no introduction – Alan Greenspan. Working with enormous amounts of economic data, the Fed chairman plays a major role in deciding whether to continue raising interest rates or hold them steady for a while. He also decides when rates need to come down to stimulate economic growth. Since interest rates impact the US economy and us as investors, consumers and business people, this might be a good time to let Mr. Bernanke know our thoughts before he settles in too much.

Dear Ben,

Stepping into the shoes of Alan Greenspan is no easy task and I wish you well. You are extremely smart from what I hear and will most likely follow the same anti-inflation road map as your predecessor. Given Mr. G's penchant for long, complex sentence structures, I'm sure your comments will be easier to understand.

As an investor, I'm relieved that January started off with a market rally, and I know that bodes well for the markets. An interesting piece of trivia is that over the last 50 years, on the six occasions the market started out with a rally the first week, it finished with an average gain of 13.2% for the year. Given what happened last year, it was a relief that we started this one on the rise. Even though we have had 15 consecutive quarters of double digit growth rate in corporate earnings, with benign inflation and relatively low unemployment, the Standard and Poor 500 index returned 3% last year (excluding dividends) and the Dow Jones Industrial Average had even more dismal returns. That S&P 500 index gain ranked the U.S. 29th out of 32 top countries in the world. My international mutual funds did far better than my U.S. large company stocks. So I'm wondering, Mr. Bernanke, isn't it time to give interest rates a rest?

I understand that Mr. Greenspan's big concern was inflation. Although for most of us, inflation only showed up in college costs, medical bills and Orange County home prices. Rates were certainly low at 1% back in June of '04 when you started increasing them – and those low rates helped our housing boom. Interest rates at mid- four percent seem right for achieving the "goldilocks" economy – not too hot, not too cold.

Many of the financial types you are meeting with right now – the experts, investment strategists, economists and forecasters – are telling you all the reasons why things didn't work out last year as they predicted. Much of it had to do with the spike in oil and natural gas prices following Katrina, which tripped everyone up. Energy prices certainly rose higher than expected. On the other hand, there were lots of things that didn't happen last year:

1. The housing bubble did not burst.
2. Consumers did not stop shopping.
3. The economy did not slow to a turtle's pace.
4. The dollar did not collapse.
5. Core inflation did not rise.
6. Productivity growth did not slow.
7. Bond yields did not soar.
8. The flattening yield curve did not lead to a recession.

I'm hoping that since these eight events didn't happen last year, they won't happen this year either. You are probably monitoring numbers one and two pretty closely. In Orange County, where home prices soared, the air seems to be leaking out of the bubble – probably healthier for the economy in the long run. On a national level, you know existing home prices aren't falling yet, but new home prices started to fall at the end of last year.

You will be watching what consumers do this year as well. Mr. Greenspan was worried and even made comments on occasion about the amount of personal debt carried by Americans. We are not known for our savings rate. Credit card companies are now raising the minimum payments due, and over time, that should help fight our penchant for plastic abuse.

Mr. G. is a tough act to follow and we wish you well as our new Chairman of the Federal Reserve.

Regards,

ABL Consumer

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