

# Armstrong Economics

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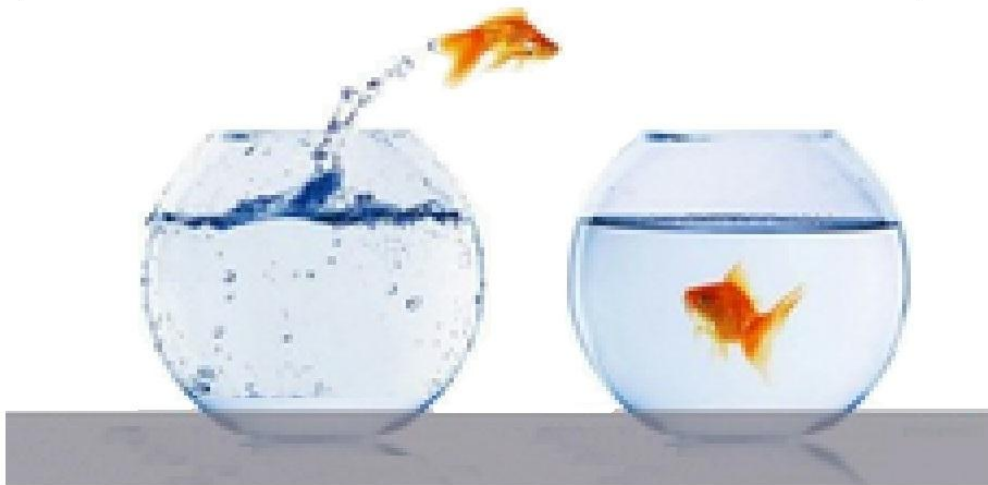
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## The Fish-Bowl Economy

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### THE EMPEROR HAS NO CLOTHES: WHY THE FED HAS NO POWER

One of the most common questions I receive is about the Fed Policy to buy Treasuries and is this not inflationary? This is a complex topic. Most of what is floating around on the web is half-truth largely due to the fact that everyone still sees this as a **Fish Bowl Economy**. The basic assumption that even the Fed makes and is dead wrong, is that the economy is self-contained. They actually believe that they can “stimulate” the economy through purchasing government securities from the open market and that will



**Constantius II (b317; Emperor 337 – 3 November 361AD)**  
***1.25 Gold Solidus Medallion of 347AD***

increase the money supply within the DOMESTIC system – the Fish Bowl. There are TWO huge problems here demonstrating why you should NEVER hire anyone who ever had any connection to these wild theories.

- (1) The assumption is that by purchasing government securities they will put more cash back into the system that will *“stimulate”* the demand and rekindle the flames of the economy.
  - A) Even assuming a domestic economy exclusively, the falsehood here is the presumption that this method is somehow direct when at best it is indirect. This is like the Roman Emperor riding in his chariot and throwing gold coins to the crowd with no idea if it reached the needy people as depicted on this gold coin of Constantius II.
  
- (2) That the economy is like a fish bowl and entirely self-contained.
  - A) Ignored is the ability of foreign holders to sell their bonds which becomes deflationary because the “cash” is not impacting the domestic money supply but it is exported creating a global contraction in real money supply.

FEDERAL RESERVE BANK of NEW YORK

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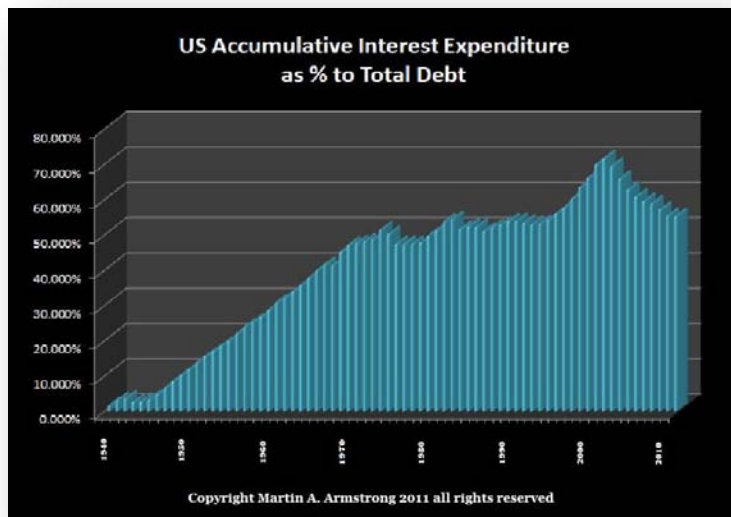
### Permanent OMOs: Treasury

The purchase or sale of Treasury securities on an outright basis adds or drains reserves available in the banking system. Such transactions are arranged on a routine basis to offset other changes in the Federal Reserve's balance sheet in conjunction with efforts to maintain conditions in the market for reserves consistent with the federal funds target rate set by the Federal Open Market Committee (FOMC).

TOOLS

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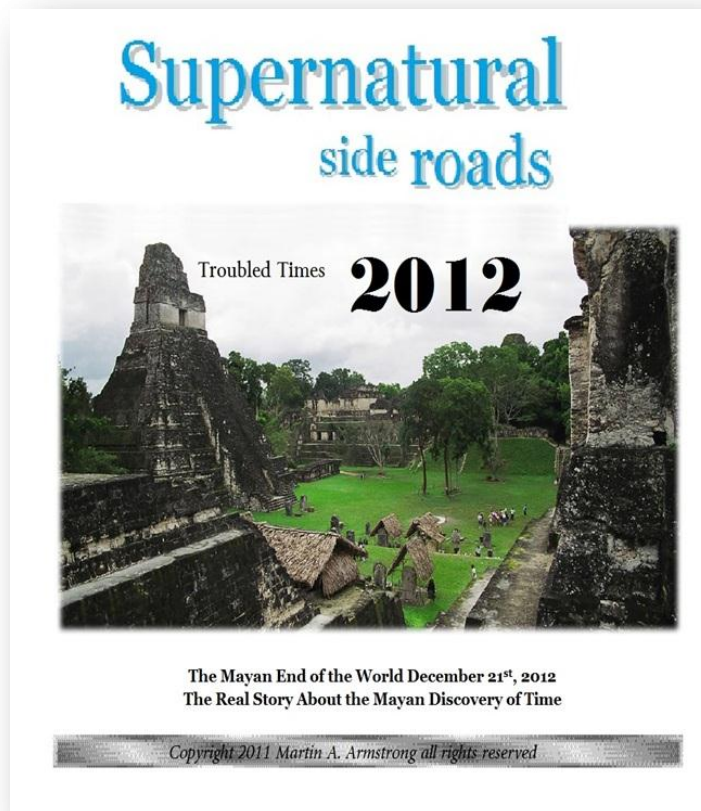
The Fed OMC statement that this is how they manage the economy has lost all touch with the modern economy that has evolved. YES it would be "inflationary" if the purchase would be EXCLUSIVELY from domestic sources. However, when they are buying in debt the seller could be easily a foreign holder. If the Fed creates cash, it will have no effect domestically if China was the seller. The cash is exported. Today, 40% of interest is paid out overseas.



So even the theory that it is less inflationary to borrow than print becomes absurd, for we are NOT borrowing from ourselves and we are not "stimulating" the domestic economy when 40% of the interest is paid overseas to foreign holders.

So at first blush, yes it appears as if the Fed bought in debt creating cash, it would be inflationary. But we no longer live in a fish bowl and other fish have figured out how to jump into our bowl and then also jump back out. This can also DRAIN the domestic economy creating STAGFLATION where the money supply grows, prices increase, but the productive forces dwindle.

We have to pay close attention to how the economy has changed dramatically from what is being preached. Surviving you own trading decisions is the real challenge. That is your real enemy, not the opinions that will turn very negative in 2013.



## TO BE PUBLISHED THIS SUMMER

This is a special report unlike anything out there. The full data on the shifting of the magnetic poles has been included showing the earth cycles derived from scientific exploration of the ocean floor where the strips of lava are magnetized to where the north pole is at that point in time. While many have hyped the *Mayan Discovery of Time* couching it in the typical doom and gloom, what they missed is their real discovery that is far more fascinating than the pretend end of the world. What we are witnessing are earth changes that are also normal and on a cyclical schedule. Is the worst yet to come?

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