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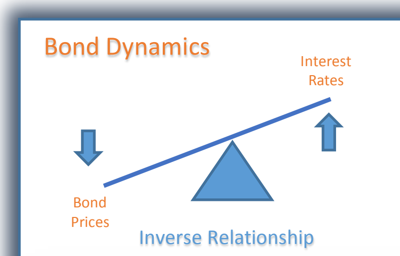
THIS SHOULD BE GOOD NEWS! As has been widely covered and discussed, the US Federal Reserve has modified its short and medium term thinking as to what level of monetary support the US (and really, the global) economy requires. The Fed has been implementing an "easy money" policy aimed at keeping overall interest rates very low relative to historical norms in order to facilitate business development. This policy has been in place roughly since the financial markets crash and subsequent recession.



The Fed's main (but not only) weapon in implementing its easy money policy is buying bonds in the marketplace. Buying bonds supports the price of the bond by creating demand for them (sometimes when no one else wants to buy them as in the recent past). The higher and more stable bond prices are throughout the economy, the lower and more stable interest rates are throughout the economy. Furthermore, putting cash into the hands of those selling the bonds encourages them to put that cash to work by lending the money, investing in other assets, etc. Those "other assets" would typically be more risky assets like equities, since the returns on bonds in this scenario would be artificially low due to the Fed program.

The main reason the Fed is willing/able to modify its bond buying program is that it has determined that the US economy has recovered adequately to provide its own "organic" stimulus and no longer requires the artificial support of very loose monetary policy. THIS SHOULD BE GOOD NEWS! Increasing signs that employment is recovering, the housing market is robust, corporate earnings are strong, global trade and growth are stable, etc., are all very positive developments.

With the Fed indicating it will be reducing its bond buying program somewhat sooner than originally anticipated both the bond market and the equity market have gotten spooked. The bond market fears the reduction in price support provided by the Fed's buying. The equity markets are skittish about the true nature and depth of the recovery. Additionally, with interest rates rising, or anticipated to rise due to changes in the Fed's support of bond prices, some investors may be enticed to reduce their equity allocations and move to bonds to take advantage of the higher yields.

As always there are the persistent concerns over the rate of growth in China, Europe's ability to achieve sustainable growth and manage its own combined debt and currency challenges, fiscal imbalances and political impasse in the US, etc., etc. These are not new issues and are not the driving forces behind the recent selloff.

Our perspective on these matters is that ultimately the Fed's decision to scale back its supportive monetary policies a little sooner than originally understood by the markets IS GOOD NEWS and reflects the Fed's confidence that the US economy is back to business and that the fundamental underpinnings for future growth and profitability have improved. The training wheels the Fed has had in place for a number of years now are being taken off. The first few trips around the block may be a little wobbly but in short order we should all be enjoying a smoother ride.