HOW TO FIX THE FED!

The forecasts of the Federal Reserve have always been amazingly inaccurate, for at least the past four decades that I have been watching the Fed.

In fact, for 38 years at my firm, Dohmen Capital, we have used the Fed as an excellent contrarian indicator at important turning points, especially as the economy goes into recession. When the Fed Chair tells Congress “there is no recession in sight,” it confirmed our work that either the recession was immediately ahead, or had already started.

That has worked very well for us. The accuracy is close to 100%. But the big question is: why should this be? The Fed has over 700 Ph.D. economists analyzing the statistics. Many of the top Fed governors are considered intelligent, although that is not the same as being “smart.”

On the other side, we and other small research firms with excellent forecasting records, usually don’t have any Ph. D. economists on staff. Could that be a benefit?

Just the odds of chance would say that amongst these highly educated people, there are a bunch who really “get it.”

Therefore, how is it possible that are always so wrong? When we hear the Fed Chair people testify, you get the best information during the Q&A. Listening closely, you can hear that the cheerful views expressed in the prepared remarks may not be what the Fed Chair really thinks. However, in the Q&A, you can often detect there is a big concern of the Fed Chair about the negatives, such as ultra-low GDP growth, hyper-growth of the debt and governmental deficit, the overburdening of governmental regulations, among other issues.

I conclude that a very serious problem is that the Fed Chair is appointed, and beholden to, the President. Thus, the Fed can never warn of disaster, serious policy problems that need to be resolved quickly, or pointing out what is wrong and correcting it.

Small independent research firms like mine and others can be candid. In fact, that’s what clients expect. They don’t want someone adding “political correctness” into their forecasts.

Because the global situation is so critical at this time, the US Congress should immediately change this dependency of the alleged “independent” Fed with the White House, which has existed for decades. The Fed Chair should not have to fear being dismissed for being honest about the true state of the economy.

Let’s look quickly at some of the current economic indications, which contradict the Fed’s cheerful message as expressed by Fed Chair Janet Yellen on June 21.

The Association of American Railroads (AAR) reported that May carloads, including commodities, **plunged 10.3% year-over-year.** That’s a meaningful decline in such an important number.

After 73 consecutive months of year-over-year growth, online jobs postings have been in decline since February. **May was by far the worst month since January 2009,** down 285k from April, and down

552k from a year ago.

The recent employment numbers show no job growth, if seasonal adjustments are removed. Bright spots were employment in health care because of Obamacare, and retail. The retail numbers this year mystified for us for a while until we realized that it had to do with the ACA Health Care (Obamacare). Companies are reducing the number of hours employees work to get to the magic 30 hours per week, in order to be exempt from the ACA.

Although around 10,000 retail stores have closed, and layoffs continue, “official” statistics say that retailers have added 323,300 workers over the past year **—nearly the strongest growth since 2000.**

Investors Business Daily writes that since August (2015), the retail sector has added more than a quarter-million jobs, but **aggregate hours worked haven’t budged.**

While seasonally adjusted retail employment has climbed 1.6%, those nearly **16 million workers are clocking 1.6% fewer hours, as the workweek has slumped from 31.5 hours to 31.0.**

Yes, retail stores are adjusting ‘hours worked’ per person to 30 hours, the cutoff for the ACA health care law. Fewer hours means more workers needed to do the work. It’s socialism. France tried the 35 hour work week to produce more job openings. Now the president is trying to abolish that. It is causing riots. You can’t take benefits away without people getting upset.

Venezuela tried the two day work week. You can see on the daily news what that has caused. Starvation, 700% inflation because of scarcity of goods, and riots. Venezuela has one of the largest oil reserves in the world. It should be prosperous, but socialism and corruption prevent that.

Economist John Williams of shadowstats.com is one economist who “gets it.” He noted that Industrial Production for Q2 has the third consecutive quarter of negative growth. That’s nine months of being negative.

He wrote that if this is not a recession now, **it would be the first time in the 97 years of this measure that this had happened outside of a recession.**

Manufacturing had a decline of 6.55% from its December 2007 peak. Certainly, that’s a strange drop in an allegedly growing economy.

The typical American consumer has **reduced spending by 12.5% since 2007.** He is tapped out. When viewing economic statistics, always realize that the population is growing. Therefore, economic numbers should grow just for that fact.

A better way to look at numbers is “per capita.” And that shows dismal numbers. From 2010 to 2014, GDP per capita grew at 4.5% (total) or about 1.1% per year.

Remember, GDP is adjusted for inflation. The inflation number is deducted from Nominal GDP. If the inflation number is understated, as it is, then the GDP growth contains price increases and is stronger, without an increase in economic activity. John Williams estimates that actual inflation, as calculated years ago before all the questionable “adjustments,” is around 9%.

I could cite numerous other statistics that confirm that the economy is in serious trouble. Several times per month I include those in our Wellington Letter.

Why is such information important for investors? Because by interpreting the right factors, you can make good profits. Last July, my work showed that the US economy would weaken. Just about every Wall Street economist was predicting stronger growth.

Thus, when I gave my best investment pick for the next 12 months at a conference in early July 2015, it was the ETF for long-term Treasury bonds (EDV). It was not for the yield, but the capital appreciation.

Since that time, it is up a hefty 25.5% (to 6/17/2016) while the major stock indices had almost no gain at all.

You should always like it when you are not part of the crowd.

CONCLUSION: As long as the Fed Chairman is beholden to the White House, the Fed will continue to miss the start of every recession as it has for the past many decades. Obviously, the Congress is no longer a factor in Washington. Therefore, my proposed change will never be considered.

The important thing for the average investor to do
is not to listen to the Fed. Or if you do listen to them, do the opposite.

Wishing you successful investing,

Bert Dohmen,
Founder Dohmen Capital Research, Inc.