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Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

Currently, my son is playing some post-season tournament baseball. When I was growing up, we called this sort of thing All-Stars; however, that was back in the day when you only had 1 All-Star team per grade per community. These days, most of the good players in the league can hitch their wagon to a team after the regular season is over.

It is all in good fun, or should be. Now, I like to win more than the next guy, but some of these other parents make me look like Nero, fiddling while Rome is burning. Regardless, we are all wild-eyed Bolsheviks when it comes to the days of yore, when parents used Little League as a good, if not necessarily valid, excuse to drink beer on Saturday afternoons. Well, many of them.

It might not come as a shock to anyone, but I am the scorekeeper for the team. That is the role the kind of nerdy, involved fathers get. Sure, I will occasionally get in there and throw some batting practice, but my highest and best use for the team, presumably, is keeping the book. In the seeding tournament when are in right now, the home team's scorekeeper is also the official scorekeeper for the game. Oh, the august responsibilities!

Now, at the Hewitt-Trussville youth baseball complex, the scorekeeper and the scoreboard operators sit in an air-conditioned room above the concession stand, with a picture window facing the field. You can think of it as sort of a press box, although no members of the actual press are there. So, I had a bird's eye view of the game last night, one which my son's team lost.

The game was actually pretty close for a couple of innings, but the other team blew it open in the top of the fourth, and I saw it all from on high and away from the field. The problem? The positioning of the right side of our defense. Our first baseman was no more than two small steps away from the bag, and the second baseman was lined up in the former's back pocket. While that is hyperbole, let's just say there was a rather large, if not huge, hole on the right side of our infield. To compound the problem, the right fielder was about 10 feet from the foul line, and our center fielder was positioned to the left of second base.

If you follow baseball, you can imagine the gaps. If not, trust me when I tell you, any reasonably hit ground ball up the right-middle portion of the infield was an automatic base hit, and could be stretched into a double if the batter was fleet of foot. In essence, what should be outs were going to be hits, and I saw it all happening. To top it off, no one, on either team was getting around on the ball, as probably 75% of balls put in play last night were to the right side of the plate.

Unfortunately, at ground level, the positioning of our players probably didn't look as skewed as it did from my vantage point. The coaches just couldn't see it the way I could. Had I not had a shut window in front of me, I would have bellowed something out...to someone. However, I couldn't, and I had to watch as the opposing team hit ball after ball after ball just out of the reach of our second baseman. Besides, methinks there is a reason why the head coach had me up in the so-called press box as opposed to down by the field. You think?

Hey, there was good effort, and no errors; however, the player just wasn't in the optimal position, and the same thing happened over and over again. I pointed it out to the person keeping the scoreboard, and said:

Inside this issue:

Insanity: doing the same thing over and over again and expecting different results.

Albert Einstein

Something to Think About, *cont.*

"Watch this...the next kid up is going to hit the ball right through that gap (which would have been something like the fourth one that inning)."

Sure enough, he did, resulting in a 5 fun 4th inning, which essentially put the game out of reach, as we weren't hitting the ball the way we can.

I tell you this little story because it is obviously fresh on my mind, and I need some catharsis. Further, it reminded and reminds me of the old definition of insanity, attributed to Albert Einstein: "doing the same thing over and over again, and expecting different results." On the way home last night, I told John this, the definition, and he looked at me like: "what do you know, old man? You are just the scorekeeper." To make it worse, I was the only father who didn't change into shorts and a golf shirt from their work clothes, making me appear even more stiff and out of it than normal.

However, I love that definition: Insanity: doing the same thing over and over again, and expecting different results. We see it all too often these days, and we have all fallen trap to it.

This week, the markets were all agape regarding the potential for additional stimulus from the Federal Reserve. Dennis Lockhart, the head of the Atlanta Fed, suggested such a thing on Wednesday, and the markets rallied like crazy, like they were in insane. Then, on Thursday, Ben Bernanke, Big Ben, brought everyone back to Earth with comments that were the economic verbal equivalent of the proverbial 'something' in the punch bowl. Oh, he didn't say a stimulus wasn't on the horizon, at some point; he just pretty much said one wasn't coming posthaste or in the immediate future. Yes, if things completely fall apart, the Fed will do something, but it ain't gonna be right now. Capiche?

Some folks, those much smarter than the rest of us, just ask them, didn't like it one little bit. So much so, this morning, the increasingly smug editors of the Bloomberg View put out an opinion piece about the immediate need for another round of monetary stimulus involving what they called QE3, the third round of quantitative easing. Essentially, the Fed should buy up even more bonds, pumping even more reserves into the banking system in the process. Never mind the Fed has already done this to the tune of roughly $2 trillion over the last couple of years, we need more of it! If you don't believe it, the know it alls at Bloomberg View will happily tell you. I better cool it with the barbs, because I am something of a know it all myself.

In any event, what would yet another round of Fed bond purchases do for the US economy? Are the absolute levels of interest rates an impediment to borrowing and lending right now? What happens if we drive long-term interest rates down another 0.25%? And flood the banking system with even more reserves? Considering the banking system is already flush with reserves it can't adequately deploy? Since deposit rates are already about as low as they can go, what would lower long-term rates really serve to do other than flatten the yield curve? Is a flatter yield curve an inducement to lend money? Historically, it hasn't been.

So, I am at a loss how yet another round of quantitative easing would fundamentally improve the shape and health of the US economy. I liken it to a B-12 shot; it'll make you feel great for a little while, but if you have something really wrong with you, the temporary rush/boost only masks the bigger issue. Such is the case here.

I don't know of any business person who thinks the problem with the sluggish economy is anything the Fed could address with more easing at this juncture. We could all be wrong; I don't know. However, when discussing such things with business owners, I am more apt to hear things like a poorly trained workforce, a lack of leadership in the country, unknown costs of mandated Federal programs, the costs of starting up a business and complying with a litany of regulations, or a complicated tax code that always seems on the verge of change, ordinarily not for the better.

When we discuss ways to fix these problems, not once, again not once, have I heard anyone peep anything about the need for the Federal Reserve to bloat its balance sheet even more than it already has. Yet, there are central bankers and academics who feel this is exactly the prescription for what ails us. Never mind we have already done all of it before; this time, it will work! It is almost like discussing socialism or communism with a leftist. "The reason why communism hasn't created the same amount of wealth as capitalism is because the people who have tried to implement it have done so incorrectly. If done correctly, communism is just as effective at creating wealth as capitalism! We just need to try it again and again and again until we can get it right."

Something to Think About, *cont.*

What was that definition of insanity again?

Hey, the Federal Reserve is well intentioned, and I am sure there are any number of staff economists who have never run a business in their lives who can point to a stack of data and say more easing is the answer. After all, numbers don't lie, even if the people who relay them might. But what is the central bank to do in a sluggish economy? What do we want them to do? Something? Anything? Even if it hasn't worked as envisioned previously? Of course, they are giving the masses what they want! Bread and circuses! If more money hasn't been the sparkplug, well, even more of it will be! Those smart guys in the Northeast couldn't be wrong, could they?

Make no bones about it; another round of easing will produce short-term results, a pop if you will, and the Administration is undoubtedly all over the Fed, behind closed doors, to do such a thing. What with an election coming up and mediocre economic releases flooding email inboxes? A short-term, liquidity fueled economic spark is just the ticket. Who couldn't be for it? Are you anti-people?

The truth is, the Fed has already done more than enough. If it has to step in with more liquidity in the event of another credit crunch coming out of Europe, fine, so be it. That would probably be a good thing to do, but dumping more cash on the US economy because it isn't growing as fast as anyone would like, but still growing nonetheless? I don't know; it seems like we have been on that road for a long period of time, and it might be time to wonder: "you know, perhaps this isn't is the right way to Prosperity. Maybe that road over there is."

This is where we need leadership in the country, but, as we all well know, it is an election year, and true leaders often don't win popularity contests. Winston Churchill losing to Clement Atlee in 1945 is a perfect example. The problems with our economy are more structural than anything Ben Bernanke can solve by creating money out of thin air. I would start by fixing the tax code, or at least simplifying it…..and putting it out of reach of fawning politicians looking to curry favor with campaign donors. Then I would make sure property, intellectual, and bankruptcy laws are ironclad AND actively enforce and/or protected. Then….

I will spare you the rest of my recipe as there are a lot of ingredients. However, suffice it to say, a lot of what I would do hasn't been done, actually any of it, and no one has really talked about doing it. In truth, I hear a lot of the same old same old, even if the same old same old hasn't been producing results. Tax credits here. Extra liquidity there. Increase transfer payments over there. Regulations are too stringent or they aren't harsh enough, etc.

So, in the end, what the United States needs are a whole lot of people who think differently; who are willing to try a different path, a potentially unpopular one, and stick to it. People in Washington and the private sector willing to stick out their necks because sticking out their necks is what needs to be done. Or we can put a band-aid on that deep gash, or we can sew it up. Which do you want?

In the end, the market's reaction to suggestions of additional Fed stimulus was predictable, and also somewhat discouraging. Hey, I will take the rally; no complaints. However, having the Federal Reserve do the same thing and expecting a different result this time is, well, insane, and I sure hope everyone else isn't insane, because, by definition, that would make me insane...as I would be the one deviating from the norm.

Basically, as it goes in Little League baseball, is as it goes in manipulating the US economy.

Tables & Data Points

STOCKS	Dow Industrials	S&P 500	NASDAQ	Russell 2000	Nikkei 225 (¥)	DJ STOXX 50 (€) Price
12/31/10	11,577.51	1,257.64	2,652.87	783.65	10,228.92	2,792.82
12/31/11	12,217.56	1,257.60	2,605.15	740.92	8,455.35	2,216.55
5/17/12	12,442.49	1,304.86	2,813.69	754.33	8,876.59	2,146.91
5/24/12	12,529.75	1,320.68	2,839.38	766.57	8,563.38	2,156.52
5/31/12	12,393.45	1,310.33	2,827.34	761.82	8,542.73	2,118.94
6/7/12	12,460.96	1,314.99	2,831.02	760.34	8,639.72	2,143.08

BONDS	3-Mo UST	6-Mo UST	2-Yr. UST	5-Yr. UST	10-Yr. UST	30-Year UST
12/31/10	0.13	0.19	0.60	2.01	3.30	4.34
12/31/11	0.01	0.06	0.24	0.83	1.88	2.90
5/17/12	0.09	0.15	0.30	0.73	1.70	2.79
5/24/12	0.09	0.14	0.30	0.78	1.78	2.87
5/31/12	0.07	0.12	0.26	0.66	1.56	2.64
6/7/12	0.08	0.13	0.27	0.71	1.64	2.74

OTHER	Prime	Fed Funds	3-Month LIBOR	Gold/troy oz.	Oil—WIT/brl.	$/Euro	JPY/$	$/GBP	CAD/$
12/31/10	3.25	0.25	0.30	1,421.40	91.38	1.337	81.19	1.559	0.994
12/31/11	3.25	0.25	0.58	1,566.80	98.83	1.296	76.99	1.551	1.017
5/17/12	3.25	0.25	0.47	1,574.90	92.56	1.270	79.28	1.580	1.020
5/24/12	3.25	0.25	0.47	1,557.50	90.66	1.253	79.60	1.567	1.027
5/31/12	3.25	0.25	0.47	1,562.60	86.53	1.237	78.31	1.541	1.033
6/7/12	3.25	0.25	0.47	1,586.60	84.82	1.256	79.63	1.553	1.028

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