

## Why Jim Cramer Is Wrong About The Fed And Interest Rates



On Wednesday, the Fed announced that it does not expect to raise interest rates for the rest of this year, which further confirms the complete dovish reversal of the Fed's position from the fall of last year. The 20% stock market rout and pressure from President Donald Trump are the reason for the Fed's flip-flop. Many market commentators - including CNBC's Jim Cramer - [cheered the](#) Fed's dovish shift:

"I thought that Jay was great [Wednesday]," Cramer told "Squawk Box," referring to Powell's news conference at the conclusion of the central bank's two-day policy meeting. "It's not easy to start. You make your rookie mistakes, you come back. He's a great guy. Anyone who knows him knows that he course corrected."

Throughout the fall of 2018, Cramer was [criticizing](#) Fed chairman Jerome Powell's desire to normalize the Fed's monetary policy after a decade of ultra-low interest rates and trillions of dollars worth of asset purchases to boost the economy and financial markets (ie., quantitative easing):

"Memo to Powell: keep listening. Be patient. Enjoy the employment gains. Let's keep the strength going by waiting a little and not being too judgmental about rate hikes like some of your colleagues," Cramer said.

The "Mad Money" host reiterated his distaste in some Fed officials' tendency to stick to traditional metrics when gauging how the economy is doing.

"How can you claim to be data-dependent if you've made up your mind before you see the data that you need one or two more rate hikes to get back to normal?" he asked. "Normal is where the data says you should go. Normal is the natural progression of

jobs being created without a lot of inflation. Normal is not a percent.?

As [I've said](#) about President Trump, Jim Cramer is completely naive and misguided about the Fed and interest rates. The Fed's ultra-loose monetary policies of the past decade have created an artificial economic boom including a dangerous bubble in stocks and other assets (read [my explanation](#) in *Forbes*). Our economy is completely addicted to monetary stimulus and Trump and Cramer are advocating for the Fed to keep pumping more and more to keep the fake boom alive. They do not realize that the more we try to put off the day of reckoning, the harder the economy is going to fall in the end.

The Austrian School economist Ludwig von Mises said it best in his book [Human Action](#):

There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

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As [I wrote](#) earlier this week, the Fed keeps stepping in to support the financial markets every time they stumble:



While constantly supporting the stock market may seem like a good thing at first blush, it's creating a massive stock market bubble that is becoming riskier with each intervention. The Fed has convinced investors and speculators that they can take virtually unlimited risk because the Fed will always have their backs. This [moral hazard](#) or [Fed put](#) is enabling risk to build up to such a high level that will eventually overwhelm the Fed's ability to control it, which is when the ultimate crash

will occur.

The Fed will throw everything (including the kitchen sink) at trying to prop up the wildly inflated stock market and economy to no avail. This desperate attempt to prop up the market and economy will entail printing ever-increasing amounts of dollars, which is what will lead to the currency crisis that economist Ludwig von Mises warned about in the quote above. By demanding that the Fed keeps interest rates low forever and never normalizing its monetary policy, Jim Cramer and President Trump are inadvertently asking for a currency and economic crisis that will be *orders of magnitude worse* than the one they are trying to push off now. It's mind-boggling how people can rise to such high positions in government and the financial world and not understand basic economics - that's why a crisis is guaranteed.

## So, What Can You Do About It?

These are the things that we worry about for our clients, and we take into account when managing portfolios. Here are the guidelines that we discuss with our clients that may help you navigate a more volatile market in the future.

- **Understand that Investing is not a competition.** *There are no prizes for winning but there are severe penalties for losing.*
- **Check emotions at the door.** *You are generally better off doing the opposite of what you feel you should be doing.*
- Know that **market valuations** (except at extremes) are very poor market timing devices.
- **Understand fundamentals and economics drive long term investment decisions ?** *Greed and Fear drive short term trading. Knowing what type of investor you are determines the basis of your strategy.*
- **Know the difference: Market timing is impossible??** *managing exposure to risk is both logical and possible.*
- **Investing is about discipline and patience.** *Lacking either one can be destructive to your investment goals.*
- **Realize there is no value in daily media commentary??** *turn off the television and save yourself the mental capital.*
- **Investing is no different than gambling??** *both are guesses about future outcomes based on probabilities. The winner is the one who knows when to fold and when to go all in.*
- **Most importantly, realize that NO investment strategy works all the time.** *The trick is knowing the difference between a bad investment strategy and one that is temporarily out of favor.*

These are the core principles we discuss each and every week in our newsletter. You can [click here](#) to sign up for free and have it delivered right to your inbox.