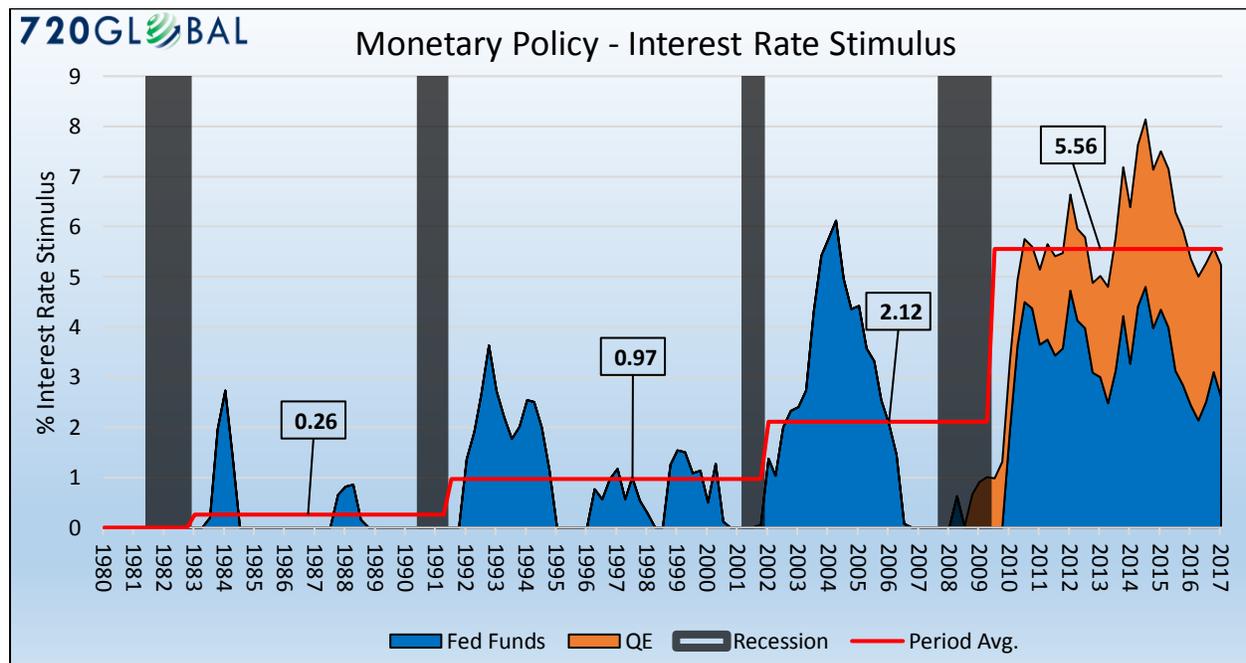




# 720GLOBAL

## How Much is too Much?

The amount of monetary stimulus increasingly imposed on the financial system creates false signals about the economy's true growth rate, causing a vast misallocation of capital, impaired productivity and weakened economic activity. To help quantify the amount of stimulus, please consider the graph below.



Data Courtesy: Federal Reserve

Federal Reserve (Fed) stimulus comes in two forms as shown above. First in the form of targeting the Fed Funds interest rate at a rate below the nominal rate of economic growth (blue). Second, it stems from the large scale asset purchases (Quantitative Easing -QE) by the Fed (orange). When these two metrics are quantified, it yields an estimate of the average amount of stimulus (red) applied during each post-recession period since 1980. It has been almost ten years since the 2008 financial crisis and the Fed is applying the equivalent of 5.25% of interest rate stimulus to the economy, dwarfing that of prior periods.

The graph highlights that the Fed has been increasingly aggressive in both the amount of stimulus employed as well as the amount of time that such stimulus remains outstanding. Amazingly few investors seem to comprehend that despite the massive level of monetary stimulus, economic growth is trending well below recoveries of years past. Additionally, as witnessed by historically high valuations, the rise in the prices of many financial assets is not based on improving economic fundamentals but simply the stimulative effect that QE and low interest rates have on investor confidence and financial leverage.

**Now consider the ramifications of a Fed that continues to increase the Fed Funds rate and moves forward with plans to slowly remove QE.**

*\*\* The QE stimulus is calculated based on a congressional hearing in February 2011, when Bernanke suggested that every \$6.6 to \$10 billion held in excess reserves has the effect of lowering interest rates by one basis point or 0.01%.*

*720Global is an investment consultant, specializing in macroeconomic research, valuations, asset allocation, and risk management. Our objective is to provide professional investment managers with unique and relevant information that can be incorporated into their investment process to enhance performance and marketing. We assist our clients in differentiating themselves from the crowd with a focus on value, performance and a clear, lucid assessment of global market and economic dynamics.*

*“The Unseen”, is our subscription-based publication similar to what has been offered at no cost over the past year and a half. In fact, what the subscription offers is precisely what we have delivered in the past, a substance in style and form that provides unique analysis and meaningful value to discerning investors. Those that have read our work understand the comparative advantage they have gained over the vast majority of investors that solely focus on the obvious. Our readers are prepared for what few see.*

*720Global research is available for re-branding and customization for distribution to your clients.*

For more information about our services, please visit us at [www.720global.com](http://www.720global.com) or contact us at 301.466.1204 or email [mplebow@720global.com](mailto:mplebow@720global.com)

©720Global 2017 All Rights Reserved

**NOTICE AND DISCLAIMER:** *This material has been prepared by 720 Global, LLC. Opinions expressed herein are subject to change without notification. Any prices or quotations contained herein are indicative screen prices and are for reference only. They do not constitute an offer to buy or sell any securities at any given price. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness, reliability or appropriateness of the information, methodology and any derived price contained within this material. The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors.*

*Neither 720 Global LLC nor its directors accept any liability for any loss or damage arising out of the use of all or any part of these materials.*

*All rights reserved. This material is strictly for specified recipients only and may not be reproduced, distributed or forwarded in any manner without the permission of 720 Global, LLC.*