

Wild ride summary and opinion



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Wild Ride In the article d A Wild Ride the points out the dangerously thin ice that the US economy is skating on. The article reports that the recent three quarters of a percentage point reduction in interest rates was a desperate attempt by the Federal Reserve Board to shore up the sagging markets. This action has established chairman Bernanke as the white knight that will "ride to the rescue whenever markets falter". The author presents ample evidence of the historical success that interest rate reduction has had on the stock markets. The article reports on the success that the 1998 cuts had in the midst of the Asian crisis and the collapse of a major American hedge fund. However, the article warns that the action may just be a temporary diversion from an inevitable bear market.

The bear market may be just around the corner. Many international markets are already in the bear market range and others are within a few percentage points of being off by 20 percent from their peaks last fall. The stop gap interest rate reduction may be too little too late in the face of other looming economic woes. The article reports that the credit market is in a risky position and could eventually seriously impede the banking systems ability to extend credit. The tight credit situation will eventually affect the markets and continue to pull them downward.

The article reports that the sub-prime mortgage problem is still having negative effects as housing prices are still plummeting and investment banks are looking at significant write-offs in the coming months. In addition, the global economy is showing signs of slowing and investors can no longer take advantage of de-coupling in foreign markets. These forces are working in concert with the falling confidence in the US dollar on the world market to loom as a growing threat to the markets. While the article cites historical

data that indicates the rapid rate cut strategy can have a positive effect, there is the danger that the Fed will become a tool of the market and not a guard against inflation. Though there is no current inflationary pressure, that may be a short term blessing that carries a significant long-term risk.

The article was astute in pointing out the underlying weaknesses in the global economic system. The US economy has left itself particularly vulnerable. If the dollar falls farther and other countries refuse to finance our trade deficit, this could result in a shortage of goods and inflation. The US economy could be facing a period where the stock market is falling or stagnant, inflation is rising, credit is unavailable as a stimulus, and the housing sector continues to weight it down. In this scenario, there may be few, if any, safety nets available to rescue the markets. Bernanke has been predictable in regards to rate cuts, and the markets are building in pricing based on their anticipation of the Fed's actions. This could neutralize any short-term benefit of the rate cuts and leave the economy with only a long-term risk.

Works Cited

" A wild ride." The Economist 24 Jan. 2008. 30 Jan. 2008 .