What will be "The Bernanke Legacy?"

Ben Bernanke's legacy will be debated for many years to come. Personally, I made up my mind some time ago.

He is extraordinary in his humility. He dealt with unimaginable stress with grace. He made decisions that, while the whole world hung in the balance, he accepted responsibility for. Huge responsibility. Whether being challenged by politicians, media, academia, or financial types, the gentlemanly professor in him always shined through. Simply put, he was the right person for the job at the exact right time.

There is criticism that is legit. The FED was late in acknowledging the pending housing market disaster. The FED didn't realize the depth to which the financial services sector; Bear Stearns, Lehman Brothers, Merrill Lynch, AIG, Washington Mutual, Countrywide Credit, Wachovia, amongst others, were so deeply exposed to sub-prime debt and Credit Default Swaps. The FED was far too late in realizing the extent to which the financial system was interwoven. As a regulator, the FED, among other regulators, failed to see this. We could ask ourselves that if safeguards were in place, could the whole Great Recession have been prevented. From the day Dr. Bernanke became FED Chairman, February 1, 2006 until about July 15th of 2007 (the time when two Bear Stearns sub-prime hedge funds blew up and was nothing more than a blip in the evening financial news), about 18.5 months, could the

FED, had it been aware of the extent of the interconnectedness, have acted? Was that enough time to even do anything? What kind of resistance from CEO's and politicians would he have met? I am sure these are the questions that will be debated in the world of academia and business for many years. Of course, no one can answer these with certainty, as they are hypothetical.

When Bear Stearns was forced into the hands of JP Morgan in March of '08, didn't it seem like we were out of the woods? Didn't it seem like throwing 100 Billion Dollars each at Fannie Mae and Freddie Mac would fix things? Just a few days before Lehman tanked, September of 2008, there was a well-known bank analyst who said Lehman would be bought out. The problems were so much worse than anyone imagined.

It was the Monday morning after Lehman went under that Dr. Bernanke sprung into the FED Head we know him as today. His brain seemed to process the extent of the damage that was done and more importantly, he had a sense of the domino effect...AIG is on the hook for more CDS's (Credit Default Swaps) than it could possibly honor and both domestic and foreign banks that were about to take massive hits to their capital due to subprime bond losses now depended on those very CDS's (like collecting an insurance payment from your P&C company if your house burned down) to make them whole.

I do not know if Dr. Bernanke fancied himself a creative person at that time, but the programs he came up with, along with Treasury Secretary Paulson and NY FED Branch President Geithner, were far out of any normal bounds of monetary policy. Lending "facilities" (Term Securities Lending Facility, Term Asset-Backed Securities Lending Facility, Term Auction Facility, Primary Dealer Credit Facility, and others) and all sorts of initials were being churned out of the FED, so much so that it made the failed and failing institutions it regulated seem like unimaginative stodgy institutions. (We had TARP, but that was from the Treasury)

Then came the trio of QE's along with ZIRP (Zero Interest Rate Policy) and forward guidance. These programs are the ones that will be remembered most. The FED's policy, as stated by Dr. Bernanke, decided to be "data dependent" and it would push the 3rd QE and forward guidance until it felt the nation was past the point of Great Recession recidivism.

Who knew the FED could do all that? Certainly not the Ben Bernanke of 2006. His time as Federal Reserve Chairman ends today. His last act was to begin loosening the screws on the economy's training wheels. He leaves us in what I believe are the capable hands of Janet Yellen, who takes over the FED tomorrow. I know we all wish her well.

Criticisms will remain; uneven growth, not enough jobs, wealth inequality, new asset bubbles, artificially low interest rates, 3.8 Trillion Dollar FED balance sheet, and unforeseen side effects. How these play out will also determine Dr. Bernanke's legacy. Many citizens are still waiting for their fair share of the FED's actions, for their "bailout". Much work needs to be done. But one thing for sure, I'll take the bad with the good here, because without the aforementioned activities, we'd be in a depression. That was Dr. Bernanke's specialty, the Great Depression and the lessons learned from it. Again, we had the right person for the job at the exact right time.

Thanks for reading,
Mitch

Mitchell O. Goldberg, AAMS, President | Investment Professional

OSJ Manager

ClientFirst Strategy, Inc.

10 Yardley Drive, Dix Hills, NY 11746

(W) 631-920-6622 (F) 631-920-6624 (C) 516-818-0338

mgoldberg@clientfirststrategy.com | www.clientfirststrategy.com | www.YouTube.com/ClientFirstStrategy

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