

Priming the Pump with Pretend Paper



Recent “rallies” are reminiscent of this old water pump as the stock market overflows with newfound liquidity.

“Buying all the way down in a secular bear market is the surest way to lose money, and lots of it.”
Bill King

What I find extremely interesting is the timing of quantitative easing relative to rally this summer. Market commentator Bill King notes that since June, the Fed has only twice purchased Mortgage Backed Securities (MBS). The first time was options expiry week in July for \$80 Billion. The second time was the past options expiry week in August for \$67 Billion. Arguably, most MBS are trading well below 50 cents on the dollar with some below 10 cents on the dollar. The Federal Reserve will not disclose how much it is paying for MBS and from whom it is buying. Bernanke is railing against any kind of audit, which probably means what he is doing is wrong and does not want their actions to see the light of day. My suspicion is they pay full face value. IMO, Wall Street likely uses the freshly printed script to pay off some liabilities but puts the rest to work in equities. The July \$80 Billion injection week broke the back of the stock market slump turning it into the rally we see now. Last week's \$67 Billion succeeded in pushing the markets to 2009 highs. These two large MBS buys could also be timed to push liquidity into the system to make bond auctions AND the stock markets do well in tandem.

Bill King is a Wall Street veteran with 35 years of institutional equity, proprietary and derivatives trading experience, giving him a unique perspective on current market conditions and forecast. As author of **The King Report**, Bill's candid observations and forecast on the economic, financial, and political forces that are

impacting the markets is read by major institutions and hedge funds. However, this report is not the usual garden variety tripe that is issued by the financial media and Wall Street. Bill, in plain language, refutes conventional rant about Wall Street activity and articulates the real factors and impetuses that drive market activity. The inside world of Wall Street is far different than what is disseminated to the masses. Wall Street insiders seldom adorn their own portfolios or trading accounts with 'recommended list' issues.

The King Report

<http://mramseyking.com/thekingreport.html>

Federal Reserve Statistical Release, August 20th, Item 9, Net Change of Mortgage Backed Securities in Millions of Dollars

Mortgage-backed securities (4)	609,531	+	66,646
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<http://www.federalreserve.gov/releases/h41/20090820/>

Federal Reserve Statistical Release, July 16th, Item 9, Net Change of Mortgage Backed Securities in Millions of Dollars

Mortgage-backed securities (4)	526,418	+	63,965
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<http://www.federalreserve.gov/releases/h41/20090716/>

Federal Reserve Statistical Release, July 23rd, Item 9, Net Change of Mortgage Backed Securities in Millions of Dollars

Mortgage-backed securities (4)	545,466	+	19,048
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<http://www.federalreserve.gov/releases/h41/20090723/>