

MONTHLY
NEWSLETTER

The Advisor

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I am happy to present this month's market commentary from our Investment Team. The goal is to give our clients and friends a simple way to see everything they need to know about the financial markets on a weekly basis, in 5 minutes or less. After all, investing should be simple, not complicated.

WHO MIGHT BE THE NEXT CHAIR OF THE FEDERAL RESERVE?

Not many Americans pay close attention to the changing of leadership at the Federal Reserve. It is one of those things that makes it hard to draw a straight line between a new appointment and any thoughts about “how does this affect me?”

On the other hand, it is something that is closely watched by economists, financial analysts, investors and the financial press. The philosophies of the Fed Chair can impact the direction of the American economy, interest rates and the prevention or recovery from a financial crisis.

In short, the person who chairs the Federal Reserve plays an important role in decision making that affects everybody.

The current Chair of the Fed is Janet Yellen, a veteran of the system, who has been the Chair of the central bank’s Board of Governors since February of 2014. Yellen also serves as the Chair of the Federal Open Market Committee. She was previously the Vice Chair of the Board of Governors. She is a former professor of business and economics and was president of the Federal Reserve Bank of San Francisco for six years. She received her doctorate in economics from Yale University.

Many establishment politicians have urged the president to keep Yellen in the position. Others oppose her continued role because she is seen as fanning the flames of speculation too much about what the Fed’s next move might be. Some have suggested John B. Taylor, an economics professor at Stanford University, as a better fit for the current economic environment.

Possible Candidates



Taylor is seen as more predictable and is known for “Taylor Rule,” which is a straight-forward process for dealing with interest rates. Another choice might be Fed Governor Jerome Powell or former Fed Governor Kevin Warsh. Powell is a former partner in Wall Street firm the Carlyle Group. He joined the Fed in 2012. Prior to his Wall Street job, he served as Assistant Secretary and as Undersecretary of the Treasury under President George H.W. Bush.

Warsh spent time in the mergers and acquisitions department at Morgan Stanley before becoming an economic advisor in the Bush White House in 2002. He was appointed to the Fed in 2006. Warsh has been critical of the Fed forecasts and might shake things up. Some critics of Warsh say that he has warned of inflation at

times when none existed.

All three are seen as hawkish. Yellen's term is up in February of 2018. She has been mostly silent on what the outcome of the selection process might be or what her future plans would be.

Regardless of who the Chair is, the Fed is expected to continue to gradually raise rates while shrinking its \$4.5 trillion balance sheet.

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About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.