Time to Put Cash to Work

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The very essence of compromise was lost on both sides of the political debate as volume seemed to replace logic, leading to one of the most divisive elections of our lifetime. Lack of clarity in tax law, health care, and public policy created a vacuum. Add in a pinch of "eurozone," a dash of "debt ceiling," and a dollop of "fiscal cliff," and you had a recipe for indecision. Yet markets proved resilient and ended the year firmly in positive territory. Good markets attract capital like Justin Bieber attracts teenage girls. Consider the $10 trillion dollars on the sidelines (M2 money supply); now contemplate what could happen if bond prices begin to waver due to upward pressure on interest rates—even more cash for investment. Housing markets are also improving as evidenced by the Advisory Services Group Economic & Market Forecast dated 1/18/2013, and with that, the mortgage bonds that were created by pooling loans, the very same bonds that make up a large percentage of banks' capital. As prices rise, capital ratios improve and lending increases, reinforcing a cycle of purchasing that could increase housing values even more.

We've lived under the shadow of uncertainty for too long; in fact, sometimes I think we revel in it. Case in point: The fiscal cliff debate masked the real news of improving fundamentals in both Europe and the US. But who wants to hear good news? Good news doesn't sell advertising, and the media was scrambling to replace the windfall that the election provided in terms of ads and viewership. I don't want to sound Pollyannaish, but despite the plethora of serious issues, things appear to be moving in the right direction from an economic perspective. If you're sitting on cash, you may want to consider putting it to work now; waiting until the "all clear" signal sounds may be too late.