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## Farr: Here Comes the Cavalry - Again!

CNBC

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By *Michael K. Farr*, Managing Director Farr, Miller & Washington; CNBC Contributor

As I head over to the Cato Institute's Monetary Conference, European stocks are rebounding on news that the European Union and International Monetary Fund could soon announce an aid package for Ireland.

The [uncertainty surrounding the fate of the Irish banking system](#) (and thereby the Irish government) had roiled global markets on Tuesday in action reminiscent of the Greek crisis earlier this year. Panic had yet again set in as investors sold off nearly all risky assets and sought the refuge of U.S. dollars and Treasury securities. However, it now appears that the calvary is returning as EU and IMF officials appear likely to intervene in an effort to avoid problems in other at-risk countries such as Portugal and Spain. Equity markets appear to have stabilized, and spreads on European sovereign debt are declining. Disaster averted again?

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This week's volatility is just the latest evidence of a market dependent on repeated government bailouts.

These bailouts cannot erase the basic fact that governments and consumers in developed nations have overborrowed and overspent. And the periodic reemergence of these crises suggests to us that the long-term remedy of deleveraging is likely to take many years to play out.

Band-aids are nice and easy, but the patient has undergone quadruple bypass surgery and will be in rehab for quite a long time.

Governments and central banks across the developed world have made the concerted decision that it would be best to spread the pain out over a long period of time rather than risk a near term depression. This is undoubtedly true. However, at some point in time difficult decisions must be made that will inflict pain. Austerity measures must be implemented and adhered to, and consumers must learn to live within their means.

**Markets overreact in both directions.** The problem is that while governments must intervene to avoid market meltdowns, nobody wants to stop a swinging party just when it's getting good. This kind of asymmetric oversight by global central banks seems unavoidable. However, we are pretty sure about one thing: maintaining ultra-loose monetary policy in an effort to stimulate more borrowing is probably not the correct prescription for an economy that suffers from over-indebtedness. This is what Greenspan did in response to the collapse of the stock market bubble and look where it got us.

We understand that the Fed has a mandate to bring down unemployment and avoid deflation. But we are not sure the central



bank has evaluated the longer-term implications of its policies.

Amid the continued economic uncertainty, we still favor high-quality, blue-chip companies with rock-solid balance sheets. We believe that investors will appreciate the relative earnings stability and downside protection as the economic headwinds become better appreciated. Moreover, quality stocks appear attractive in light of the meager yields available on bonds.

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