Bill Gross: Assets Are $15 Trillion Overvalued and Fed Will Keep Rates at 0% Forever to Keep the Fantasy Alive

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From The Business Insider, Oct. 28, 2009:

PIMCO's Bill Gross with a great monthly letter. Here are the key points:

- Over the past 30 years, paper asset prices rose 2X as much as they should have based on economic fundamentals
- This was the result of leverage
- The asset price rise in turn pumped up the economy's fundamentals (Soros's reflexivity)
- The government wants to restore the "old normal" (2007) not the "new normal" (slower growth as asset prices return to trend)
- Therefore... The Fed will keep rates at 0% for at least 18 months into sustained 4% growth
- Next year, when the inventory restocking effect wears off, 4% will be tough

Bill Gross:

> [I]n a New Normal economy (1) almost all assets appear to be overvalued on a long-term basis, and, therefore, (2) policymakers need to maintain artificially low interest rates and supportive easing measures in order to keep economies on the "right side of the grass."
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> Let me start out by summarizing a long-standing PIMCO thesis: **The U.S. and most other G-7 economies have been significantly and artificially influenced by asset price appreciation for decades.** Stock and home prices went up – then consumers liquefied and spent the capital gains either by borrowing against them or selling outright. Growth, in other words, was influenced on the upside by leverage, securitization, and the belief that wealth creation was a function of asset appreciation as opposed to the production of goods and services...
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> My point: Asset prices are embedded not only in our psyche, but the actual growth rate of our economy. If they don't go up – economies don't do well, and when they go down, the economy can be horrid.
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> To some this might seem like a chicken and egg conundrum because they naturally move together... if long term profits match nominal GDP growth then theoretically stock prices should too.
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> Not so. What has happened is that our "paper asset" economy has driven not only stock prices, but all asset prices higher than the economic growth required to justify them...
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> [L]et me introduce Chart 2 a PIMCO long-term (half-century) chart comparing the annual percentage growth rate of a much broader category of assets than stocks alone relative to nominal GDP. Let's not just make this a stock market roast, let's extend it to bonds, commercial real estate, and anything that has a price tag on it to see if those price stickers are justified by historical growth in the economy.

http://finance.yahoo.com/tech-ticker/article/362503/Bill-Gross-Assets-Are-15-Trillion-Overvalued-and-Fed-Will-Keep-Rates-at-0-Forever-to-Keep-the-Fantasy-

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