SAUNDERS FINANCIAL

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The market's reaction to the announcement of a "QE2" has been somewhat subdued to date and may remain so depending on just how far the Fed will take this. Most likely, the Fed's announcement will signal an end to the 30-year bull market in bonds however, as I discussed with you, we should have time to "pull to the side of the road" to add air to the tire going flat. Our firm has begun researching where to aim investments going forward once the bond bubble begins to deflate. I will keep you posted as to our findings.

Many folks are not aware that next Tuesday (the mid-term elections) may be important, next Wednesday may be even more important and an inflection point when the Fed announces the focus of "QE2". We shall see. Two things for sure, "will it work" and its twin question "will it begin the creation of a bond market bubble"?

I believe this second round of "QE" more closely resembles as attempted hypodermic straight to our economy's heart as opposed to the simple "mood elevation" of "QE1".

In my opinion, if "QE2" cannot reflate the capital markets, if it cannot produce 2% inflation and an assumed reduction in unemployment back to historical levels, then our journey back to prosperity will be long and hard.

We should all say a prayer for Ben Bernanke as I am sure, if he could, he would tell us the outcome of this effort is "by no means certain". We are in a "liquidity trap" where the "QE" efforts may not stimulate borrowing or lending because consumer demand is just not there. This is akin to a "black hole". Just ask Japan.

With everything said, this is all Bernanke can do as he, cannot raise or lower taxes, direct the fiscal thrust of infrastructure spending, change our educational system or force the Chinese to revalue their currency. "QE" is all he can do.

Well, now you have my complete thoughts on "QE1" and "QE2".

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