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Robert Genetski **September 12, 2016**

Ignore Fed's On-Again, Off-Again Rate Hike

Investors would be wise to ignore the game the Fed is playing with its decision on interest rates. In the past, an interest rate hike by the Fed could be associated with monetary restraint, which is bad for stocks. This is because the Fed would sell securities to either raise rates or keep them artificially high.

Today, the Fed's approach to monetary policy is different. They have no intention of selling securities as a means to adopt a restrictive policy. Rather, they are manipulating interest rates in an entirely new, experimental way. The Fed sells securities and agrees to buy them back the next day. The terms of the agreement reflect whatever interest rate target the Fed wants to achieve. As a result of this procedure, the Fed's securities sales do not drain bank reserves. Therefore, they do not restrict the money supply.

The Fed's current focus on interest rates is mainly to fix the price of credit, not change the money supply. The task of changing the raw ingredients for the money supply is currently in the hands of commercial banks. They have been gradually reducing their buildup in deposits with the Fed and using the funds for loans and investments. So long as the banks continue to do so, there will be plenty of money in the system regardless of where the Fed chooses to target interest rates.

Bottom line: Ignore the Fed's game with respect to its setting interest rates.