

ST. LOUIS POST-DISPATCH

The Motion of Money Can Defeat Terrorism.

By Thomas Grady

ST. LOUIS POST-DISPATCH

07/24/2005



Thomas Grady is a partner at Trinity Wealth Advisors, a family wealth management firm in Kirkwood, MO. Mr. Grady also speaks on family wealth generational topics.

The Federal Reserve refers to the speed money moves through the economy as “velocity.” In principle, the FED maintains, the faster money moves the better. When dollars change hands quickly, transactions are popping everywhere. This is good for the economy, not to mention tax coffers.

But money does not “move” by itself. Consumers make it move, taking money from their pockets, bank accounts, plastic, etc. and delivering it to sellers of products or services, who then take that money and pay bills to their vendors, and on and on it goes....rapidly.

Velocity also applies to consumers themselves. The faster and more easily they can travel, the more often the possibility of transactions. If a consumer stands perfectly still in a vast parking lot for 12 hours, the chances of a transaction occurring are minimal. This would not please the FED. On the other hand if that same consumer were to fly to New York for a lunch appointment and then on to Washington, D.C. for a dinner engagement, she would be moving at high velocity and undoubtedly be involved in a large number of transactions all along the way. So she’s moving and her money is moving with her, exponentially increasing the FED’s velocity.

Strangely, this brings us to terrorism. Terrorists have two simple goals: 1) to slaughter us, in droves preferably and 2) to ravage our economy. The choice of jet liners by the 19 degenerates that commandeered them was no fluke. Aside from being devastating weapons that accomplished goal #1, the jets also represented the epitome of consumer motion in our economy. Cripple the airline industry and consumer velocity grinds to a crawl, thus slamming on the economic brakes and fulfilling goal #2.

Things change if the terrorist acquire a dirty bomb or WMD. Their goals will switch. By the very nature of either type of bomb, mass death is a given. There is no need to plan for pinpoint killing (ala Madrid and London) because either bomb is all-encompassing. Drop one in a dumpster somewhere in a Miami alley and goal #1 is a done deal. Such a catastrophe would effect consumer motion only on a specific piece of U.S. geography. The rest of the country, though burdened with despair, would keep up its momentum; it would have to.

Such a geographically isolated effect on consumer motion would matter not to the terrorist, their assumption being that such an attack would accomplish goal #2 in another way, by proving fatal to the quintessential symbol of U.S. money in motion – the stock market.

Wrong! Because of their islamofascist bent, there are two critical stock market characteristics the terrorists have no grip on: 1) the market learns and adapts and 2) the market’s sole dictator is supply and demand. After 9/11, it took 1.5 months for the stock market to recover (though it continued its recessionary decline for 14 more months). After Madrid, it took two weeks. After London, three hours, and all of that during pre-open trading.

These experiences are examples of learned adaptation, each honed from the previous and thus mollified in its impact. The next attack on the U.S. might be dreadful. If so, when it happens the stock market will no doubt react harshly. But because of its education, it will quickly recover by relinquishing its motion to the disciplined calmness of its bedrock principle – supply and demand.

Reacting “harshly” means selling. British economist Alfred Marhsall’s supply and demand concept says, as we all know, that when there’s a whole bunch of something for sale and not a lot of interested buyers,

the price of that something drops, often precipitously. But when the price of that something reaches well below its market value (which it would in a "harsh" selling terrorist aftermath), buyers move in to secure anticipated gains. The more buyers move in the more the rest of the market senses they're right and begins to flood in behind them, and values go up.

Demand rises, supply drops, prices rise. How simple. How marvelously stupid the terrorists.
