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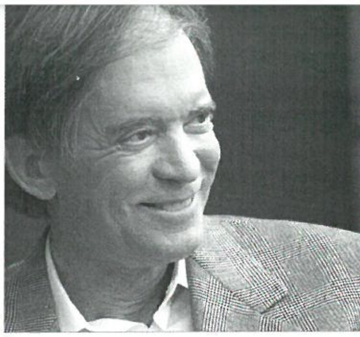

Investment Outlook

January 2013

Bill Gross

Money for Nothin' Writing Checks for Free

It was Milton Friedman, not Ben Bernanke, who first made reference to dropping money from helicopters in order to prevent deflation. Bernanke's now famous "helicopter speech" in 2002, however, was no less enthusiastically supportive of the concept. In it, he boldly previewed the almost unimaginable policy solutions that would follow the black swan financial meltdown in 2008: policy rates at zero for an extended period of time; expanding the menu of assets that the Fed buys beyond Treasuries; and of course quantitative easing purchases of an almost unlimited amount should they be needed. These weren't Bernanke innovations – nor was the term QE. Many of them had been applied by policy authorities in the late 1930s and '40s as well as Japan in recent years. Yet the then Fed Governor's rather blatant support of monetary policy to come should have been a signal to investors that he would be willing to pilot a helicopter should the takeoff be necessary. "Like gold," he said, "U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes **at essentially no cost.**"