Back To The Future?

by Joe Average.
October, 2005.
www.lifetoday.com.au

1924: "**the *Miami Herald* was rumoured to be the nation's heaviest newspaper in terms of weight because of the colossal amount of real estate classified ads in its pages**. Easy credit was abundant and it seemed like 99% of the public was either a real estate investor or broker. Stories of property prices rising 500% in less than a year reached the rest of the country and soon capital poured in at an even faster pace. The music finally stopped during the summer of 1925 and prices started to decline by Christmas. The pace of selling increased and, just when it couldn't get any worse, a hurricane wreaked its havoc the following year (415 people died). Game over. … the only reason why Florida real estate saw any relief at all in the late 1920's was because of the wave of nation-wide prosperity from a dramatically rising stock market. But as you all know, the **stock market…crashed in October of 1929. Stocks collapsed and took everything down with them including real estate**".

Todd Stein & Steven McIntyre, *The Texas Hedge Report*, www.texashedge.com

1925: "Of the period after 1925…There followed a period of good trade…for some parts of the world, **one of the biggest booms in economic history**….International lending was resumed on a scale surpassing even pre-war dimensions…Men of the type of the late Ivar Kreuger moved rapidly from one capital city to another…arranging without fuss…what were described as 'good constructive loans'- the acolytes of the **'new economics'. It was in these days that it was said that the trade cycle had become extinct."**

Goronwy Rees, The Great Slump, Weidenfield & Nicloson, 1970.

1928 January: "There will be no interruption of our permanent prosperity."

Myron Forbes, President Pierce Arrow Motor Car Co.

"I cannot help but raise a dissenting voice to statements that we are living in a fool's paradise, and that prosperity in this country must necessarily diminish and recede in the near future."

E.H.H.Simmons, President New York Stock Exchange.

1928 November: "We are at the beginning of a period that will go down in history as the golden age."

Irving Bush, President of the Bush Terminal Company.

1929 February: "…the boom will collapse within a few months."

Friedrich von Hayek. *Austrian Institute of Economic Research Report.*
One of the few economists to predict the crash….he was awarded the Nobel Laureate in 1974.

1929 Summer: **"…a great crash is coming and I do not want my name in any way connected with it."**

Ludwig von Mises…. *The reason Von Mises gave for rejecting a high position at Kredit Anstalt (then one of the largest banks in Europe)… two years later this Austrian bank was declared bankrupt.*

"The long run is a misleading guide to current affairs. In the long run we are all dead."

"Markets can remain irrational longer than you can remain solvent."

***John Maynard Keynes*.**

"There will be no more crashes in our lifetime."

John Maynard Keynes, *renowned British economist and graduate of Cambridge….is quoted by several sources to have uttered these words to Felix Somary (Austrian School economist and Swiss banker) when warned against buying stock as a crash was imminent.*

1929 September: **"Stock prices are *not too high* and Wall Street will *not* experience anything in the nature of a crash."**

"Stocks are now at what looks like a permanently high plateau."

Irving Fisher*. Fisher graduated from Yale and was regarded as one of America's greatest economists. Also an inventor and author, Fisher made a fortune when he sold his index file system to Remington Rand. His reputation was tarnished when he kept insisting throughout the Great Depression that a recovery was imminent*.

1929 September: **"Sooner or later a crash is coming, and it may be terrific…factories will shut down…men will be thrown out of work…the viscous circle will get in full swing and the result will be a serious business depression."**

Roger Babson, *speaking at his Annual National Business Conference*.

1929 October 28th, "Black Monday"….stock market loses 13%.

1929 October 29th, "Black Tuesday"….stock market loses 12%.

1929 October 30th: "**This is the time to buy stocks. This is the time to recall the words of the late J.P.Morgan… that any man who is bearish on America will go broke. Within a few days there is likely to be a bear panic rather than a bull panic."**

R.W. McNeel, market analyst New York Herald Tribune.

1929 November 1st: **Interest rates lowered 1 per cent from 6% to 5%.**

1929 November 10th: **"A severe depression such as 1920-1921 is outside the range of probability. We are not facing a protracted liquidation.** "

Harvard Economic Society.

1929 November 14th: **"The end of the decline of the Stock Market will probably not be long, only a few days at most."**
Irving Fisher, *Professor of Economics Yale University*.

1929 November 15th: **Interest rates lowered 0.5 per cent to 4.5%.**

"…financial storm definitely passed."
*Bernard Baruch (American financier, statesman and presidential adviser) in cablegram **to Winston Churchill** (British Chancellor of the Exchequer from 1924-1929).*

1929 November……… stocks have fallen 62% (from 381 to 145).

1930 February 7th: **Interest rates lowered 0.5 per cent to 4.0%.**

"Do away with instalment buying suddenly and the country might face a real industrial depression."
Wall Street Journal (In 1920 less than 100 sales finance companies existed… by 1928 there were over 1,000… buying on credit had developed into a new industry servicing the new middle class. At the time a banker claimed American's bought 80 to 90 per cent of automobiles, phonographs, furniture, pianos, etc on credit).

1930 March 14th: **Interest rates lowered 0.5 per cent to 3.5%**

1930 June: **"The depression is over."**
***U.S. President Herbert Hoover*.**

Interest rates lowered over past eight months from 6.0% to 2.5%.

1930 August: **"…the present depression has about spent its force."**
Harvard Economic Society.

1932 June…………….. stocks have crashed 91% to a low of 34.

1933: "**All safe deposit boxes in banks or financial institutions have been sealed… may only be opened in the presence of an agent of the I.R.S."**
***President F.D. Roosevelt*.**

POSTSCRIPT to the Crash of 1929:

"With increasing optimism, they gave birth to a silly idea called the New Economic Era. This notion spread all over the country. We were assured we were in a new era where the old laws of economics no longer applied."
Former President Herbert Hoover *writing in his memoirs (about the years prior to the Great Depression).*

"…the Harvard Economic Society was liquidated in 1932."
John Rothchild, The Bear Book, John Wiley & Sons, 1998.

John Maynard Keynes: in spite of his brilliance as an economist, Keynes failed to see the crash coming and is reported to have remained fully invested and lost one million English pounds in the Crash of '29.

Professor Irving Fisher, Ph.D. Economics, held steadfastly to his view of an imminent recovery from the Crash of '29, and went on to lose close to $140 million in today's dollars. Defying his predictions, the Dow lost some 90 per cent over the next two years and investment trusts crashed 95 per cent.

"…up to 1927 I should have expected that the subsequent depression would be very mild. But in that year an entirely unprecedented action was taken by the American monetary authorities…(they) succeeded, by means of an easy-money policy, inaugurated as soon as the symptoms of an impending reaction were noticed, in prolonging the boom for two years beyond what would otherwise have been its natural end. And when the crises finally occurred, deliberate attempts were made to prevent, by all conceivable means, the normal process of liquidation."

Freidrich Hayek*, Austrian School economist and winner of the 1974 Nobel Memorial Prize in Economics.*

The More Things Change…
The More They Stay the Same?

1996 December: **"But how do we know when irrational exuberance has unduly escalated asset values…?"**

Alan Greenspan*, Chairman Federal Reserve.*

1998: **"This expansion will run forever…. (the American economy will) not see a recession for years to come."**

"We don't want one, we don't need one, and, as we have the tools to keep the current expansion going, we won't have one."

"Fortunately, we have the monetary and fiscal resources to keep that from happening, as well as a policy team that won't hesitate to use them for continued expansion."

Economics Professor Rudi Dornbusch, *M.I.T. Cambridge MA.*

2000 January 14th: The Dow peaks at 11,723.

2000 April 14th: After peaking March 10th, the NASDAQ falls 9.7% on "Black Friday" to be down 34% from its peak. U.S. interest rates at present are 6.5%.

2001 June: "…(the U.S.) is on the edge of a golden age of prosperity."

"It's easy to find gloom and doom, but consumers are hanging in there, their spending rates are still quite good."

U.S. Treasury Secretary Paul O'Neill**.**

2002 August: “**Alan Greenspan, the chairman of the Federal Reserve**, defended the central bank today against criticism that it had mishandled the rise and fall of the stock market and **said that the Fed could not have prevented the bubble on Wall Street** without damaging the economy…”despite our suspicions, **it was very difficult to definitively identify a bubble** until after the fact – that is, when its bursting confirmed its existence.

Moreover, it was far from obvious that bubbles, even if identified early, could be pre-empted short of the central bank inducing a substantial contraction in economic activity, the very outcome we would be seeking to avoid.” This was his defence. But you can still ask questions about other channels he could have used**. He could have used moral suasion more than he did to dampen investor sentiment…”**

***David Hale**, chief economist Zurich Financial Services.*

2002 August: “The Fed is the culprit – they caused the bubble” (by keeping interest rates low and increasing the country’s money supply).

***Bill Fleckstein**, President Fleckstein Capital Inc, Seattle*.

2002 September: “This is no normal business cycle, but the bursting of the biggest bubble in America’s history. Never before have shares become so overvalued. Never before have so many people owned shares. And never before have every part of the economy invested (indeed, over invested) in new technology with such gusto. All this makes it likely that the hangover from the binge will last longer and be more widespread than is generally expected.”

Pam Woodall, The Economist magazine.

2002 October: The NASDAQ is down 78% from its 2000 high, the S&P has lost 50%, and the Dow has fallen 38%.
The Fed, determined to avoid a looming recession, has reacted by slashing interest rates 12 times over the past nineteen months. Interest rates are now at a fifty year low of 1.25%.

2002 November: “…there are several measures that the Fed (or any central bank) can take to reduce the risk of falling into deflation. … 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.
A money–financed tax cut is essentially equivalent to Milton Friedman’s famous “helicopter drop” of money.”

***Gov. Ben Bernanke, (likely successor to Alan Greenspan)**, National Economists Club, Washington, D.C.*

2005 June 16th: “The worldwide rise in house prices is the biggest bubble in history. Prepare for the economic pain when it pops… The global boom in house prices has been driven by two common factors: historically low interest rates have encouraged home buyers to borrow more money: and households have lost faith in equities after stockmarkets plunged, making property look attractive.
… insist the optimists… real house prices always rise strongly in the long term. Robert Shiller, a Yale economist, who has just updated his book “Irrational Exuberance” (first published on the eve of the stockmarket collapse in 2000), disagrees. He estimates that house prices in America rose by an annual average of only 0.4% in real terms between 1890 and 2004.”

***The Economist magazine*.**

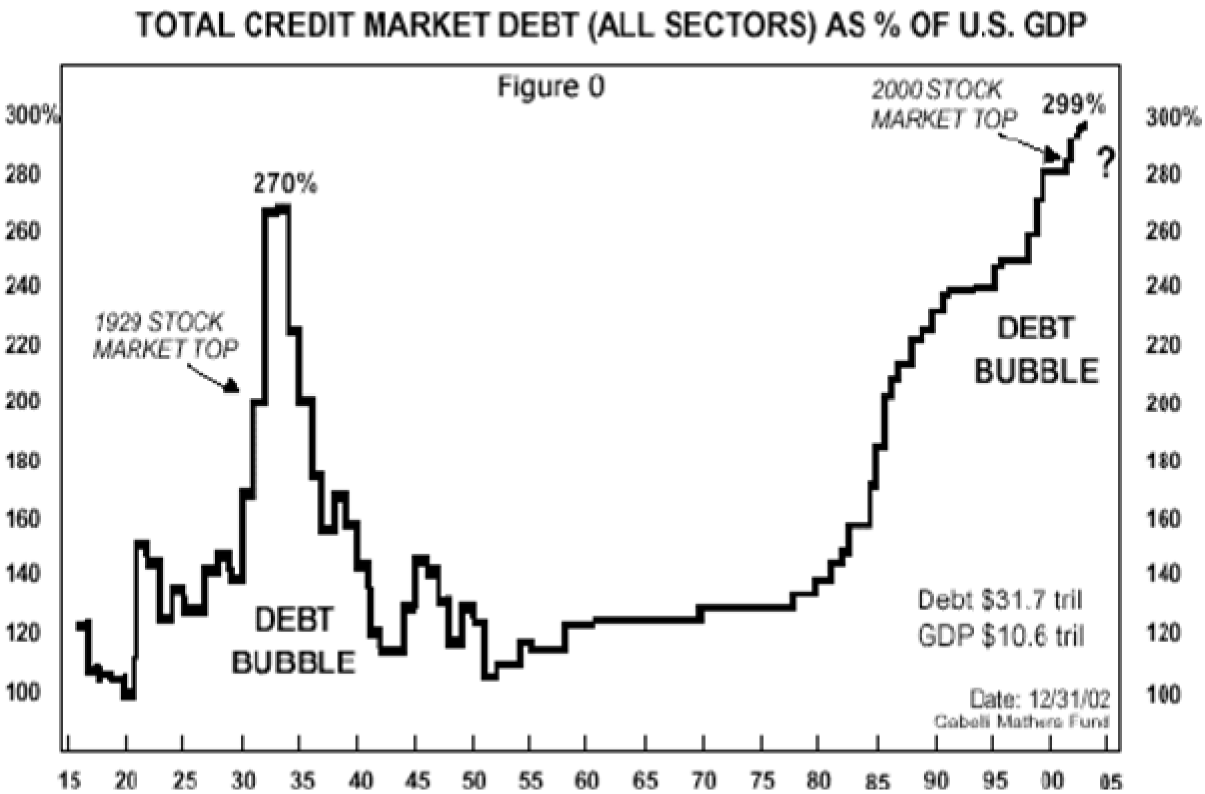
2005 September: **"Says the chief economist of the National Association of Realtors and author of Are You Missing the Real Estate Boom?, *"Paying off a mortgage (is) very unsophisticated."* The chief executive of an Internet-based mortgage company echoes this sentiment: *"If you own your home free and clear, people will often refer to you as a fool.*"**

The Elliot Wave Financial Forecast.

Joe wonders: ***…Now let me see if I've got this right. Piling on debt is smart. Paying off a mortgage is unsophisticated. Owning your home free and clear is foolish. Becoming debt free is imprudent.***

Now I get it! Cash Is Trash…debt is healthy…credit is easy…everything keeps going up in value…we all keep getting richer…and greed is good (Gordon Gekko lives)!

Is this a fabulous new golden era we live in or what!



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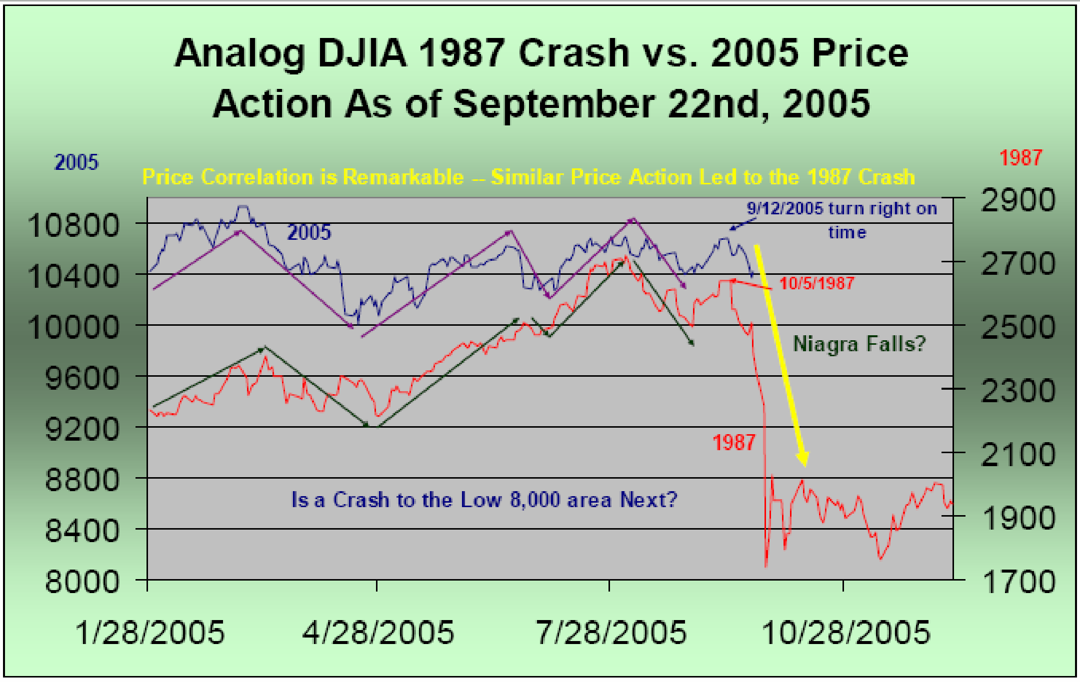

Graphs courtesy McHugh's Financial Markets Forecast & Analysis. Robert McHugh, Ph.D. is offering **a Free 30 day Trial Subscription** at www.technicalindicatorindex.com

CONCLUSION:

I leave each reader to draw his or her own conclusions about where we stand today. However, I cannot help but finish with one last quote that particularly appealed to me,

Cheers, Joe (aka Dr. William R. Swagell).
www.lifetoday.com.au

"My only regret in life is that I did not drink more Champagne."
***John Maynard Keynes*.**

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