

Having survived the worst stock market collapse of our time, we still face strong headwinds

In October 2008 and again in February/March 2009, world financial markets have teetered on the brink of disaster. Deep pessimism and panic had taken hold of exchanges and its participants. Granting of commercial credits had almost completely stopped. After the collapse of Lehman, nobody trusted his trading partners anymore. Luckily, political leaders in Europe and the US reacted fast and forcefully to stop a vicious downward spiral. They have been able to calm down nervous participants; stock markets have stabilized. Massive public investments in banks have saved them and allow them to continue lending, which is of utmost importance for a tottering economy. Since March a timid recovery from a low level is under way and pessimism has reluctantly been scaled down.

Despite the brightening for financial markets, the economy has entered a serious recession with no end in sight yet. Owing to the huge size of speculation, leverage and indebtedness, which have come to light, it is probable that these excesses can't be cured quickly, but will drag down economic activity for some time to come.

If we look in the past when there has been a comparable period, the time from 1974 to 1982 comes to mind. Early in the 1970s, heavy speculation in the so called "nifty fifty", the "one decision stocks", high quality, superior growth companies like Avon, Eastman Kodak, Polaroid, IBM etc. had lifted prices to unsustainable levels. After the Arab-Israeli war the Arabs started an oil boycott against the Western industrialized nations. The DJIA fell from a high of 1'050 in 1972 to 578 at the end of 1974. In 1975 the DJIA staged a recovery to 870. The economy however recovered unevenly and weakly, accompanied by increasing inflation. The price of gold took off. By 1982 interest rates hovered around 15% and the stock market languished between 750 and 1'000. Paul Volcker, who became Chairman of the Fed in 1979, succeeded in 1982 in breaking inflationary expectations, but to do so he had to lift short term rates to over 20%. Confidence and trust returned, the economy started to grow, interest rates slowly declined and profitability increased. The market entered one of its most prosperous periods in history, with the DJIA rising from 1'000 in 1983 to 11'000 by the end of 1999.

It is possible that we witness at present a similar interlude like 1975 to 1982. The economic outlook is rather dark with recessionary forces spreading, unemployment on the rise and consumers having less disposable income. Governments incur record deficits. There is no end in sight yet. However, such tough times of deprivation and hardship are necessary to correct the misdirected behaviors and excesses of the past, to wean business from unnecessary luxuries and to create a solid basis for an eventual upswing. At the same time widespread pessimism and uncertainty squeeze valuations of the best companies. They reflect only the present dismal outlook. Many high quality companies now offer higher dividend yields than high quality bonds. In a few years, higher earnings and dividends amid more optimism will lead to much higher prices. The present time is a time of sowing, which must precede harvesting. An investor has to muster patience, conviction and perseverance to maintain and build his holdings of stocks and bonds under adverse conditions, which could last for several years. He should also be flexible to recognize and seize mispricings of stocks and bonds, which arise often in times of strain and duress.

After the horror of the crash and the short brightening of a recovery we have entered again a demanding phase, in which owners of securities have to look through the hardship of the present recession and disappointments to a hopefully bright future. Success in the stock market requires a lot of patience, conviction, modesty and agility, but then it also can bring home surprising prosperity.

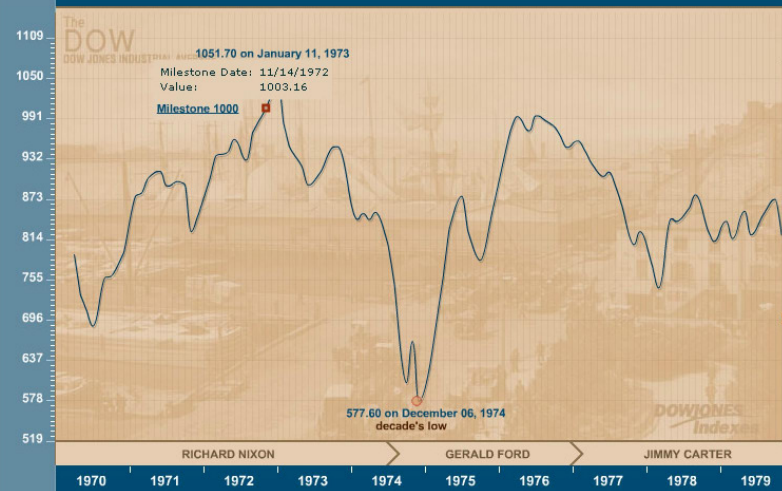
Roland Schwab

July 16, 2009

INTERACTIVE LEARNING CENTER

The DJIA Through History (PDF)

DOW HISTORICAL TIMELINE DOW TRIVIA DOW Ins AND Outs



- Please select a decade
- 1895 - 1909
 - 1910 - 1919
 - 1920 - 1929
 - 1930 - 1939
 - 1940 - 1949
 - 1950 - 1959
 - 1960 - 1969
 - 1970 - 1979
 - 1980 - 1989
 - 1990 - 1999
 - 2000 - 2009

Articles Milestones

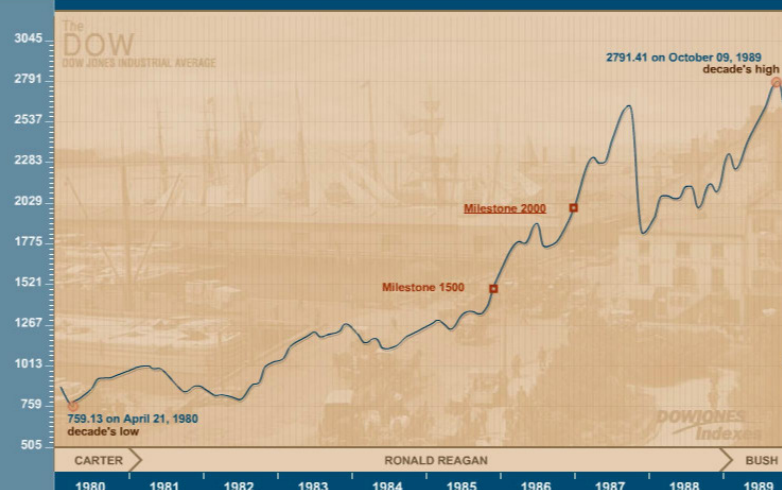
Read articles from the feature decade.

- DJIA Milestone 1000. Tuesday, November 14, 1972. DOW 1000: Finally in '72
- 1973-1974: A Bad Time for Stocks
- Compare and Contrast

INTERACTIVE LEARNING CENTER

The DJIA Through History (PDF)

DOW HISTORICAL TIMELINE DOW TRIVIA DOW Ins AND Outs



- Please select a decade
- 1895 - 1909
 - 1910 - 1919
 - 1920 - 1929
 - 1930 - 1939
 - 1940 - 1949
 - 1950 - 1959
 - 1960 - 1969
 - 1970 - 1979
 - 1980 - 1989
 - 1990 - 1999
 - 2000 - 2009

Articles Milestones

Read articles from the feature decade.

- The Index's Dark Days in 1980
- DJIA Milestone 2000. Thursday, January 8, 1987. Where Were You at Dow 2000?
- The Big Top: Summer of 1987
- Crash Courses: How the Two Great Stock-Market Crashes Compare

INTERACTIVE LEARNING CENTER

The DJIA Through History (PDF)

DOW HISTORICAL TIMELINE DOW TRIVIA DOW Ins AND Outs



- Please select a decade
- 1895 - 1909
 - 1910 - 1919
 - 1920 - 1929
 - 1930 - 1939
 - 1940 - 1949
 - 1950 - 1959
 - 1960 - 1969
 - 1970 - 1979
 - 1980 - 1989
 - 1990 - 1999
 - 2000 - 2009

Articles Milestones

Read articles from the feature decade.

- When Saddam Uncaged a Bear
- DJIA Milestone 3000. Wednesday, April 17, 1991. Topping the Elusive 3000 Mark
- DJIA Milestone 4000. Thu, Feb 23, 1995. Greenspan: "Dow 4000" Hero
- The Most Powerful Bull Market in History
- Changing with the Times
- At Last, Dow Jones Allows DJIA Derivatives