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# The Market in this New Decade

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Theme: Global Economy

*On January first of this new decade, 2020 the Dow Jones was at a record high; $28,634. What does that mean?*

*Since the great depression of 1929 there have been 13 severe downturns revealing time and again that the market is not stable.*

Our most recent big down turn was in 2007-8 in what is now referred to as the Financial Crisis which then precipitated the Great Recession of 2009-2010. The Dow Jones dropped over 50% from an Oct. 2007 high of $14,164 to $6,594 in March 2009. Housing prices fell 33%, more than in the depression.

In November 2008 as the crisis was unfolding, the Queen was at the London School of Economics possibly for two reasons; first because of her duty as Queen and possibly because of her personal wealth which is estimated to be over $500 million. She asked a simple question about the crash; "Why did nobody notice it (coming)?"

The Queens question was valid. Prof Garicano of the London School said:

> "She was asking me if these things were so large, how come everyone missed it." He told the Queen: "At every stage, someone was relying on somebody else and everyone thought they were doing the right thing." What nonsense!

However his answer does clarify the fact that economics is not a science. Not a science despite the fact that universities around the world offer economics courses as if it is. Every year they graduate people with economic degrees and many find work as economists, and although numbers vary, that is thought to be at least 50,000 people, possibly as high as over 100,000 worldwide. No matter what number is right, it's a lot of people and almost all of them missed our last huge market crash.

But not everyone! Those in mainstream economics did… but I've found about a dozen people who didn't and those are the people we need to learn from.

One is the economist Ann Pettifor (born 1947), she studied politics and economics in her native South Africa and now lives in Britain. In 2003 she predicted the 2007 crash in an article in The New Statesman magazine which she followed up in her 2006 book *The Coming First World Debt Crisis*. She has spent a lifetime campaigning to end the unjust debts we've imposed on poor nations and poor people.  Her most recent books are on how to create a green new deal and how to break the power of the bankers.

Another who predicted the melt down was Peter Schiff, a stock broker and advisor who has a degree in finance and accounting from UC Berkeley. He appeared in debates on Fox News in

2006 and was ridiculed by his fellow commentators for his bearish views. In August 2006, he declared that "The United States is like the Titanic and I am here with the lifeboat trying to get people to leave the ship … I see a real financial crisis coming for the United States." In later debates, he predicted crashing real estate prices in 2007 and a looming "credit crunch".

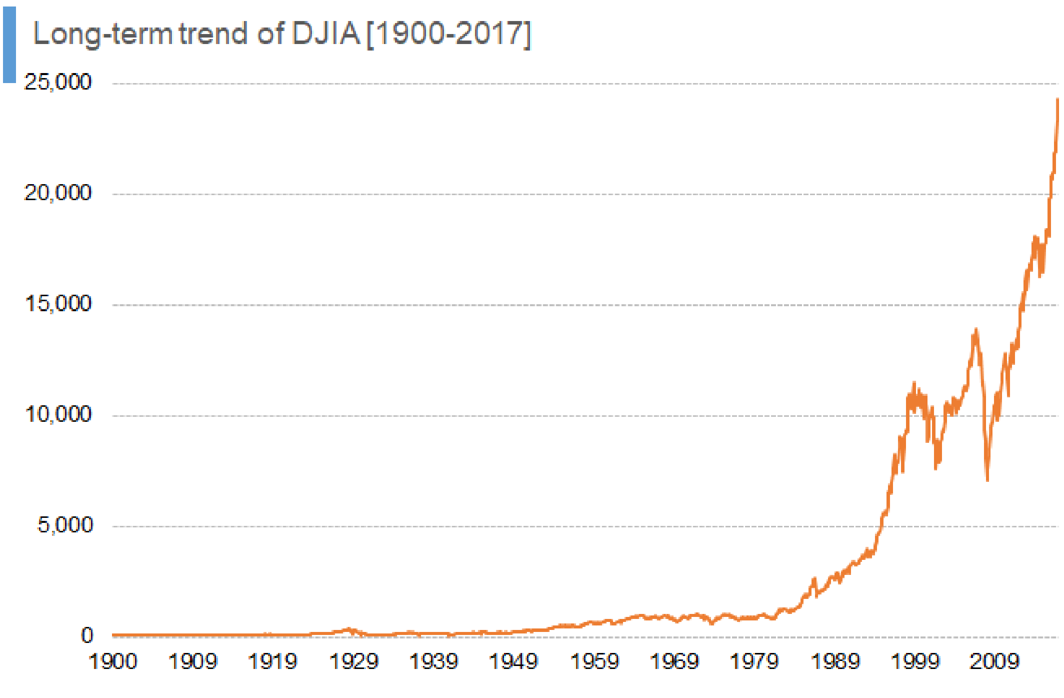
The title of Schiff's 2007 book, *Crash Proof: How to Profit from the Coming Economic Collapse*, makes it clear that he too predicted the financial crisis. He described the US as a "house of cards: impressive on the outside, but a disaster waiting to happen beneath the surface".

The 2007 financial crisis began because of the foolish practice of giving mortgages to unqualified borrowers… we've heard of them but not directly. We heard of subprime mortgages. The term was a smoke screen for the corrupt bank practice of lending to unqualified buyers. Subprime were the borrowers, not the mortgages.

In September 2007 the British bank Northern Rock was the first to go because they could not sell their mortgages. Lehman Brothers, the fourth largest investment bank in the United States with a 158 year history was next. It folded on September 15, 2008 because it couldn't sell its sub prime mortgages. Then the Federal Reserve Bank stepped in and began what they called quantitative easing to save the banks and pass on the costs of doing that to the people.

But back to the story. Where should the Dow Jones be?

Below is a long term chart of the Dow Jones Industrial Average. Not the clearest chart but it goes from 1928 to 2019. In about the year 1975, the market starts to deviate from its slow steady decades long growth and begin to soar and the soaring has not stopped. Two questions come up: why did it soar and is the increase real and sustainable.




Whatever changed, it was not in the real economy, that's the world where people make things, grow things and distribute things. That 'real' economy would have a projected value of about $5,000 today (take a ruler and extend the historic growth line to check for yourself.) Nothing phenomenal has happened in the real world to suggest otherwise.

So what happened in the seventies? The United States went off the gold standard, in 1971. In 1974 the Basel Committee on Banking Supervision came into being which, along with the Bank for International Settlements controls global money and both operate in secret. Both of these were huge changes.

What also began to change was the finance industry. In the 1940's the finance 'industry' amounted to about 2% of United States Gross Domestic Product. By 2005 it had reached 8.3%. An additional 6.3% doesn't sound like much but 6.3% of $17 trillion dollars does: that's $1,070,000,000,000! What extra value did we get from the added expense? In my view, none.

And by 2016 the Washington post reported that it had grown further to 20% of GDP which fits in with what we hear about the financialization of the economy. The problem is, that the extra billions don't go go for making things or feeding or caring for people. They go to the rich and they falsely inflate the value of the stock market moving us into new territory mythically away from the real world. Do the people get any benefit from the extra 18% of GDP that has moved out of their grasp?

And to make matters worse, the FED continued and continues to pump money into the market with continued quantitative easy long after the crisis had ended.

So where will the markets go from here? When will the bubble burst again? No one knows.

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