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MARKET COMMENTARY – MARCH 1, 2016

The Forgotten Depression. Super Tuesday.

We, as 21st Century readers, are so accustomed to the break-neck pace of news and daily life, that we may have a difficult time even imagining an alternative. Equally as pervasive today is the assumption that "someone," most usually in government, needs to have a plan or solution to every small ill or contagion that creeps into our economy. We recently had the occasion to review The Forgotten Depression by James Grant, which conveys the fascinating details around the 1920-1921 depression.

This bit of economic malaise was very clearly the last downturn in United States history where the federal government did little, if anything at all, in response.

Fear not, we will avoid recounting each of the interesting facts and figures from the tome we've recently read. Nor will we simply recite the history and be done with it. Our aim is to briefly summarize our findings and then tie the implications to modern day markets, looking for similarities and venturing to make a prescription.

The Great War, World War I, had ended two years before. The monstrous flu pandemic which killed millions of people worldwide had finally burnt itself out. The global business cycle was ripe for an overdue downturn. One came with a vengeance. Real business output fell 8.7%. To put that into perspective, during our most recent downturn from 2007 to 2009, the Great Recession, real GDP fell around 3%!

But we all learned about the "Roaring Twenties" in school. What gives? How could an awful depression, perhaps more severe than the beginning stages of the Great Depression, extinguish itself in just 18 months and set up one of the greatest booms in history? Mr. Grant makes a compelling case in his work.

Woodrow Wilson had suffered a debilitating stroke in 1919 near the end of his second term. His wife ran the White House. Politicking and legislation ground to a halt so any programs proposed went nowhere. Then Warren G. Harding from Ohio won on a "Return to Normalcy" ticket. His entire platform was to shrink the deficit and debt, which he and his successor Calvin Coolidge did efficiently.

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Interest rates, maintained by the newly created Federal Reserve, stayed high, or in line with market rates. Jobless rates skyrocketed. Wages fell precipitously. Commodity prices cratered. Anything horrible that you can imagine from an economic standpoint happened. But Mr. Grant suggests that the freedom to allow such drastic price movement (wages are prices) helped speed the arrival of the business trough. In the face of decreased government spending and high interest rates, the opposite of what has happened in every recession or depression since 1920, the economy roared to life.

Have we ever seen anything approaching this scenario in more modern times? Yes, kind of. Recall the 1990s. After the 1994 elections, the President and Congress were able to come to terms and cut spending. The budget slowly balanced over the ensuing years and what can be called the "Roaring Nineties" occurred.

Most of the current crop of Presidential candidates seem bent on proposing more programs, more plans, more spending to fix whatever they believe is our current ailment. The Forgotten Depression offers another alternative. Our flirtation with balanced budgets in the 1990s may confirm the book's prescription. Perhaps we need to do a little less with the government so "We the People" can do more.

We urge you to pick up Mr. Grant's book and follow the learning trail wherever it leads, to other books on the Twenties or economic policy.

Today is Super Tuesday primary voting in many states. We encourage you to vote in your state's primary or caucus today – or, in the case of Ohio, in a couple weeks after much of the decision has already been made. We have the ability to choose among a slate of men and a woman, who will, in turn, set the agenda for economic policy in the years to come. Make your choice in thoughtful reflection.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely
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