BOB HOYE

OCTOBER 9, 2010

Fabulous Bull Markets and Fabulous Cars

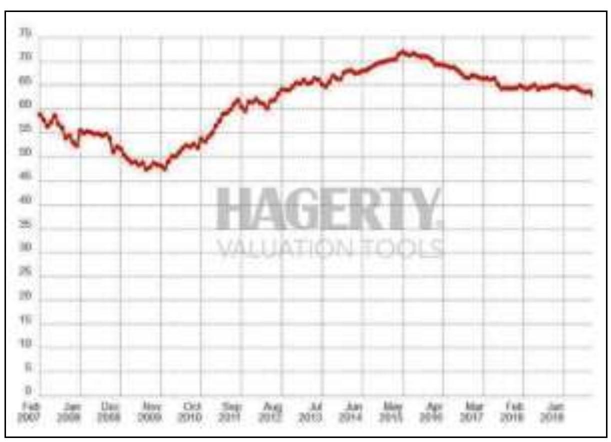
The following article was first published in early 2000, when backed by a long-time fascination with cars, Bob wrote it up as a market phenomenon. An earlier run-away speculation in collector cars peaked with the Tokyo Bubble in 1989 and then sold off. Considerably. The main thing was that it was part of an outstanding financial bubble. And then slump. The Ferrari 275 GTB 4-cam http://www.motorsportretro.com/wp-content/uploads/2014/12/1966-Ferrari-275-GTB-Competizione-4.jpg was the example we thought would be representative. There some 300 produced and the price run-up was impressive. From around $10,000 in the early 1970s to $1.2 million in 1989. Our administrator, Patty, did the charts manually.

Numbers were from "For Sale" ads in the *Ferrari Newsletter*, published by the late Gerald Roush https://www.nytimes.com/2010/05/30/business/30roush.html and the low was $300,000 (offered) in the mid-1990s.

Research for the original article was from books in Bob's shelves and it did not need a trip to the library or to the internet. It was updated for the 2007 Bubble and the last update was this version in 2015. When prices for outstanding cars had soared. The high trade was a 1962 Ferrari 250 GTO (4153 GT) in May 2018 at $70 million. That was an exceptional transaction. https://mondrian.mashable.com/uploads%252Fcard%252Fimage%252F834646%252F0ba93fff-44c0-49b8-bbfc-e7209454b0b8.jpg%252F950x534__filters%253Aquality%252880%2529.jpg?signature=ouXTnXoGqU29Dmcvavl8Xb4co9Q=&source=https%3A%2F%2Fblueprint-api-production.s3.amazonaws.com

However, the insurer that specializes in this sector, Hagerty Insurance has created a price index of "collectable" cars. The notes say that it was created similar to the major stock indexes. It peaked in 2015 and has declined a little but enough to set a down trend.

Hagerty Collector Car Market Rating



Source: Hagerty

History has been recording a series of financial bubbles. Definitely the greatest, and this sector, as in 1989 may have set a cyclical peak.

Great Cars, Soaring Sales and Financial Manias

MAY 2015

Soaring overall automobile sales and the wonders of very upscale cars are making headlines around the world. In China the banner is about the "Electric Car Boom". Of course, in North America the big numbers are about pickup truck sales. Much of this is on the "never-never" with car loans out to 7 years. For the high-rollers, million-dollar new cars show remarkable performance numbers, but are "chump change" compared to the bids for residential real estate, art pieces and "collector" cars.

The premier production supercar is the Bugatti Veyron. Priced at $2.7 million, it features a W-16 cylinder engine with 4 turbochargers. Putting out some 1006 bhp the top speed is 253 mph. Full-on braking will bring the car down to a stop in only 10 seconds, but it uses half a kilometre of road.

Wheels as *objets d'art* have been bid up with a 1961 Ferrari California Spider in sadly deteriorated condition selling recently at auction for $18.5 million.

Where are cars going?

The last speculative surge in such cars soared up with the Tokyo Financial Bubble of 1989. It was a hot market for "Trophy" hotels, golf courses and collector cars. Over the decade to 1989, the price for a 1968 Ferrari 275 GTB 4 cam soared from $10,000 to $1.2 million. With the Nikkei crash. The price plunged to the $300,000 level. This was a reasonable proxy for the overall sports car market and one has recently traded for $3 million.

However, returns on some cars since the 1990s bottom have been outstanding. A friend just missed buying a 1939 Alfa Romeo 2900 for $180,000. Recently, one traded for $10 million.

The highest price for a car sold at auction was $38 million for a 1962 Ferrari GTO. That was in 2014.

Even micro-cars from the early 1950s have been collected. More a motorcycle than a car, a Messerschmitt Kabinenroller (Cabin Scooter) recently sold for over $300,000. This holds two people with the driver in front steering with motorcycle handlebars. The "Kabin" is clear plastic bubble and it provided some shelter from wind and rain. It was called a "Bubble Car". Another such car was the BMW Isetta, which was the biggest seller with a production run of some 161,000 units.

With no little irony, the 1950s bubble cars have been caught up in yet another financial bubble. From the ridiculous to the sublime.

The last huge mania in sports cars peaked with the Nikkei in 1989. This one will likely peak as the current bubble in stocks and bonds exhausts itself.

Glowing stories about sensational automobiles have been frequently published. "Auto Makers Are Cruising Down the Road to Excess" was a headline of a WSJ article which included a description of the Mercedes Gelaendewagon, a SUV with a sticker price of over U.S. $150,000. The AMG version has a V12 turbo engine.

However, a tough-go anywhere vehicle was not the subject of a story on "James Bond" cars such as the new V-12 engine for Aston Martin. After suffering a setback with the 2008 recession, Ferrari is "enjoying the best financial position in history". That goes for Porsche as well. Extravagant cars and great bull markets do go together.

With the good times of the financial boom, traditional manufacturers have been acquiring the exciting names. Fiat owns Ferrari, and Ford took over Aston Martin and Jaguar. Particularly ambitious, VW's shopping spree picked up Lamborghini as well as the Bugatti and Bentley brand names. The latter's concept car features a V-16 engine, the first for a proposed production car since the magnificent examples of the booming 1920s.

However, this ostentatious part of the boom now seems particularly vulnerable. Despite the worst markdown in stock market capitalization since the early 1930s, the consumer kept their own bubble going by buying cars.

"Zero" cost financing, and rapid introduction of "new" models to defer saturation, some, such as a Cadillac "pickup truck" and Porsche SUV, and more recently Rolls Royce and Lamburghina and developing SUVs.

However, threats to the action have been mounting.

Today's cars boast the greatest longevity in history and the price of used cars has been pushed down to economically attractive levels by the discounting. The dramatic credit downratings for Ford and GM are forcing their borrowing rates up, which will impair their ability to continue "0" financings.

The boom started in the 1990s with annual world car sales of 39 million units and now it is up to 74 million. The mania is so sweeping that even used car sales are being financed by financial engineering. Underwriters are bundling car loans and selling the certificates to fund managers.

Seems even dodgier than what was going on with the housing boom that created so much trouble beginning in 2007. That was the first miracle of turning sup-prime into AAA.

Notwithstanding this speculative history famous billionaires have been buying car dealerships, like there was no tomorrow. Gates has been in the the game already. In March, Warren Buffett closed on the purchase of the largest private dealership in the US. He glowed with ***"This is the beginning of a journey that will have no end. The fun has just started."***

More down to earth, and as travellers often ask "Are we there yet?"

Yes!

As to "collector" cars, this is part of a fully-blown inflation in financial and tangible assets. Major collections that were acquired over decades are being auctioned, *en masse*. This suggests distribution.

Cars at any price level are being made with an unprecedented longevity. Ten years as a driver and perhaps another five as a good "beater" is a given. So under pressure many could defer buying or leasing a transportation car for a long time.

All manufacturers are turning to fad items such as SUVs and novelties such as electric or hybrid cars. Even Formula 1 racing is "doing" hybrids.

Generally, emphasis on novelties could increase as the big manufacturers turn to planned obsolescence to keep the assembly lines going.

It won't be the first time.

Planned obsolescence was "discovered" late in the 1920 boom.

Are these indicating the end of the unprecedented extension of the boom in cars well after the new financial era expired? If so, what's the significance? Perhaps the pattern of the last example will provide some guidance.

Unintended saturation dramatically reversed automobile sales in the U.S. in the spring of 1929. The importance is that it surprised management and was accompanied by a reversal to unusually weak industrial commodity prices.

For example, although enjoying outstanding sales growth in the 1920s' new era, any concerns about market saturation were dispelled. In 1928, the head of the Society of Automotive Engineers thought that it could be offset by "changing automobile appearance frequently as to obsolete those in the hands of owners".

As with the "new and scientific" Federal Reserve System, the concept of obsolescence would keep the good times rolling.

In the same year, Knudsen, President of Chevrolet, estimated that saturation couldn't be seen even by 1930.

General Motors observed it would tough out the possibility of saturation and "keep ahead of the competition by offering more models with more features than anyone else". Overcapacity and rationalizations seem to be the consequence of a great boom. This was rapidly dashed in the contraction.

In the last great financial boom, the epitome of automobile fashion was not exaggerated ground clearance and four-wheel-drive, but length and weight for a luxurious ride as well as multi-cylinder engines for quieter running. The big car offered bragging rights about "hugging the road" and accelerating from 0 to maximum speed (about 90 mph) in top-gear only.

Behind the claims was the practical matter of a balky non-synchromesh manual transmission with a heavy and tricky clutch. Minimizing lunging starts and grinding gears required practice and concentration.

The desirability of a smooth start in top gear was obvious to both engineering and marketing people. For a given engine displacement, torque (for acceleration) is increased by a longer stroke and more cylinders.

Moreover, the latter provided smoother running and engines went from the straight sixes to eights with the V-sixteen being the ultimate in design and sales pitches of the late 1920s.

Whether then or now, the heavier the car, the greater the profit margins prompted similar business decisions and the accomplishments in the late 1920s luxury market in engineering and coachwork were magnificent.

While the Duesenberg, with an in-line eight, was the most formidable car of the era, the theme of this article is automotive fads and booms. Both peaked together and the esteemed cars were V-16s; two production models and one prototype.

Possibly both inspired by and symptomatic of the boom, the concept of the sixteen cylinder luxury car arrived in 1927. In America, work began on the Marmon Sixteen in early 1927. Shortly after that, one of the engineers left to design one for Cadillac and in July, 1929 another left to design the prototype Peerless V-16.

During the 1920s, Cadillac had lost leadership to Packard's V-12 and, rather than expanding their V-8 to the next configuration and merely match competition, management legend Alfred Sloan insisted on the V-16. Seeming to ignore the bust, 2,500 were sold in 1930.

The engine displaced 452 cubic inches and the car, with a wheelbase of 148 inches, weighed 6,200 pounds. By comparison, the figures for today's popular Ford Focus are 104 and 3,000 respectively.

Sensitive to changing popular attitudes towards extravagances, management quickly produced a more modest V-12. Only 750 V-16s were sold in 1931 despite heavy discounting down to almost the price for the V-12. Indicating rejection of ostentation, only 346 V-16s were sold in 1932 while 1,709 of the "un-extravagant" V-12s were bought. In 1933, the numbers were 125 and 1,000 respectively.

Although the line, in this case between ostentatious and merely conspicuous consumption, was narrow, post-boom moderation was a compelling fashion – especially when the song *Brother, Can You Spare A Dime?* described the times. (Bing Crosby's 1932 recording has it right.)

For the last two decades, General Motors' Suburban was the big SUV, but Ford's Excursion, at 19 feet, is almost a foot longer and weighs 8,800 lbs. This provoked GM's acquisition of the Hummer in 2000, which press releases described as a "monster vehicle" and "image builder". It seems that management, in also planning to make the Suburban bigger, was responding to forces similar to those during the last great boom when it was compelled to trump Packard's V-12 with a V-16.

The big SUV's status is size, height with plenty of ground clearance, and rugged four-wheel drive. Other than making a dramatic statement, their unique design function is little used in rough terrain. Owners enjoy the up-high authority, but fewer than 6% take them "off road" and don't seem to mind getting half the fuel mileage that the average car gets.

In making up only 15% of new car sales, they deliver 60% of North American industry profits. A $58,000 price tag generates about $19,000 in profit, which is the equivalent to the entire sticker price of many small cars.

The numbers are irresistible and, in 1996, there were 26 models and the numbers are approaching 100.

In 1929, Cadillac developed the synchromesh transmission which eventually, with the smoothness of a well-engineered V-8, made the features of the V-16 redundant. That fad for grand cars, with overall attitudes becoming more conservative after the boom, ended and bankrupted many of their manufacturers.

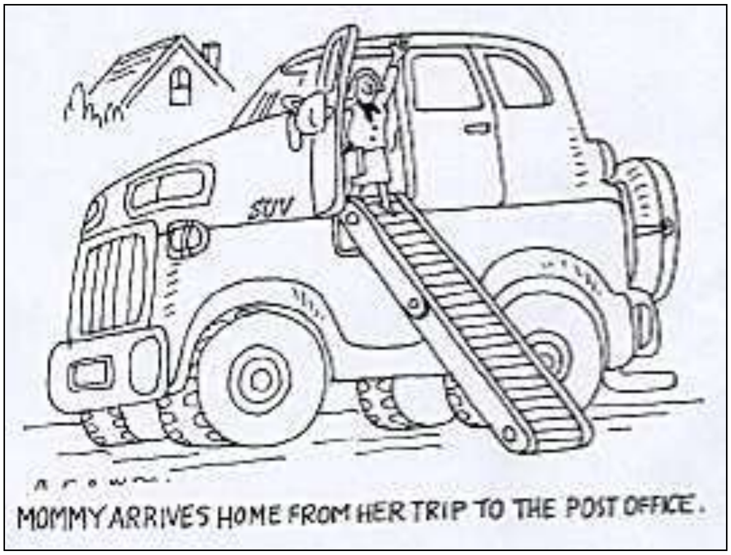
Today's wonderfully fast supercars have top speeds of around 200 mph. This compares with the 1932 Duesenberg SJ which, in showroom trim, could do 135 mph. With an improved intake manifold (which became stock), it accomplished 145 mph. In either era, speed is more important as a boast rather than a practice.

For enthusiasts, the two new eras produced some fabulous cars but, beyond that, they are symptomatic of a great financial boom. And, despite (or because of) the enthusiasms, satiation was achieved, which contributed to the 1930s contraction.

Still caught up with the spirit of the greatest bull market in history, engineers and marketing types at Bugatti are talking up more cylinders – this time in a W-18 configuration.

Meanwhile, over in Stuttgart, Porsche is still touting its Cayenne. Lamborghini and Rolls Royce are joining the party. So are Alfa Romeo and Maserati. Showing some discretion, Ferrari has announced it would not join the fad. Recalling the brutal cars of 1929, the Bentley pitch is that its Arnage model is "The Most Powerful Sedan in the World". In the racing world, "Arnage" is one of the sections at Le Mans, which Bentley won from 1927 to 1930.

It seems that "what goes around comes around".



MOMMY ARRIVES HOME FROM HER TRIP TO THE POST OFFICE.