

# Don't Ever Give Up

*The last one month must be one of the toughest periods for investors and their advisers. The equities market fell like a pack of stacked cards. Many are saying that the world has never seen anything like this before. But is this true? I took a trip to 1929 to find out.*

by Christopher Tan, CEO Providend

Like stocks, real estate was the speculative favourite of the 20s. The mantra was "leverage up, buy a bigger house, even if you can't afford it!" Interest-only mortgage was already the standard then. On black Monday, 28<sup>th</sup> October 1929, the market crashed. Americans rushed to withdraw their money and banks closed their doors and curtailed lending. The economy subsequently collapsed. The greed of man, his over-borrowing, and bank's poor management of loans led to the world's worst crisis of all time: The Great Depression. Seeing similarities between the crises of 1929 and of today, I realised that when it comes to money, history generally repeats itself. Men are cyclical creatures who are generally greedy and can't help but make the same mistakes.

The current plunge of the stock market has left investors so fearful that many claimed this is one of the worst stock market crashes in history. I wasn't sure, so I took another trip all the way back to 1900. Looking at the top 10 stock market crashes (see table) since then, things became a lot clearer.

The 10<sup>th</sup> worst crash was the recent internet bubble in 2000. The Dow went down -37.8% in 999 days. The subsequent 8 crashes averaged more than negative 40 percent. But the grand daddy of them all is in 1930. The market went down 86%. Together with the 1929 crash, the Great Depression lasted 34 months and took 89% from the market. The current crisis has brought the Dow

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down by about 23% so far and does not qualify to be in the Top 10 list. But the question every investor is asking is whether the current crisis will be prolonged.

In my trip to 1929, I found out that just before Black Monday, everyone from government, experts to the newspapers were bullish about the economy. Shortly after the first crash in October, they quickly became positive again, predicting a quick recovery. On April 17, 1930, the market sank even further. Throughout the next 2 years, there were plenty of recovery forecast. But by the time the carnage was over, 3 years have passed. I learnt that no one, not even financial experts or the government knew how long the bear would last.

I then took another trip to the 80s. In 1983, Robert Foman, President and Chairman of E'F. Hutton predicted that Dow would hit 2000 by the end of the decade. By January 1987, the Dow had

broken 2000. Throughout the decade, everyone was bearish about the market. However on 14 January 2000, the Dow was at 11,715. For thirteen years, the market gained 486.15%. I learnt that no one, not even Alan Greenspan, knew how long the bull will charge. I also learnt from the past century, that no matter how deep and long the crises were, it always recover. But the key question is whether you have time to wait for it to recover.

In the summer of 1929, John J. Raskob, a senior executive of GM claimed that US was on the verge of a tremendous industrial expansion. He maintained that by putting just \$15 per month into good common stocks, investors could expect their wealth to grow steadily to \$80,000 over the next 20 years. When the stock market crashed, Raskob's advice was ridiculed and denounced for years to come. But was it fair? If one was to follow Raskob's advice to put \$15 every month into the market, after 20 years, the annual returns would be 7.86% and after 30 years, 12.72%, far from his initial estimate. Not too bad, I must say. The lesson is this: even in the worst crises, markets still recover with a respectable return. But if you want to shorten the time of your recovery, don't sell out. Keep investing but invest in the right things. If you sell, you are out of the game with no hope of recovery at all.

My trip to the past has taught me that all crises stem from the same cause: Greed. As King Solomon says that there is nothing new under the sun. This crisis



is not new, it's just that we have forgotten our lessons. Don't try to time the markets. Michael J. Mauboussin, Chief Investment Strategist of Legg Mason Capital Management in a study, found out that if you are able to accurately avoid the worst 50 days of the market, your returns will jump to 18.2% p.a. But if you miss the best 50 days, your returns will dropped to a horrible 1% p.a. Burton M. Malkiel in his book: "A Random Walk Down Wall Street" wrote that over the past 54 years, the market has risen 36 years, even in 3 and declined only 15

years. The conclusion of these studies is that if you guess wrongly, you will be in a very bad shape and chances of you being wrong is 3:1, against you.

The crisis will surely pass. Don't ever give up.

Investors, be strong and courageous. You may be fearful. I am too. But history is behind us and for us. If you stop investing, you will perish in this crisis.

Advisers, lead. Because when leaders don't lead, men die. Our clients need us now. No matter how they may scream at you, grit your teeth, hold their hands and push forward.

Table 1: Top 10 Stock Market Crashes Since 1900

\*To get a feel of the situation: Life expectancy in US was 47. Average salary per year: \$300. More than 95% birth took place at home. Only 14% of the homes had bathtub. Only 6% graduated from high school

	10 <sup>th</sup>	9 <sup>th</sup>	8 <sup>th</sup>	7 <sup>th</sup>	6 <sup>th</sup>	5 <sup>th</sup>	4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>
<b>Date Started</b>	15/1/2000	21/11/1916	12/9/1939	11/1/1973	1901	3/11/1919	3/9/1929	19/1/1906	10/3/1937	17/4/1930
<b>Date Ended</b>	9/10/2002	19/12/1917	28/4/1942	6/12/1974	1903	24/8/1921	13/11/1929	15/11/1907	31/3/1938	8/7/1932
<b>Total Days</b>	999	393	959	694	2 years	660	71	665	386	813
<b>Total loss in DJIA (%)</b>	-37.8	-40.1	-40.4	-45.1	No data*	-46.6	-47.9	-48.5%	-49.1	-86%

*This is an original article written by Christopher Tan, CEO of Providend, Singapore's sole fee-only Independent Private Wealth Management Firm. The edited copy appeared in The Business Times Weekend 11-12 October 2008.*