This is Not 1929 or 2008 - Transcript

Tom Mullooly: In episode 185, we have a quick update, so stick around.

Welcome to the Mullooly Asset show. I'm your host, Tom Mullooly and this is episode number 185. Thanks for tuning in. We are recording this on Tuesday, March 24th, 2020, and I want to talk about what to expect moving forward after a couple of really bad weeks in the market. And I want to start out by just telling folks that this is not 1929 and it is not 2008. Each of these instances, they're all different. So I want to just talk about 1929 because we're starting to see people reference that this is going to be a depression. No chance.

So let's talk about the roaring twenties. There were tons of excesses in the economy. The main thing though that you have to remember from what happened in 1929 is that the federal reserve was created in 1913, but they were toothless. They had no mandate at the time, so they were merely an advisory board. There wasn't much that they could do at that point to help get the economy back on its feet. Also, the depression in the 1930s was led by the stock market crash in 1920s. Normally it's the other way around. So we saw the stock market going down. That led to this economic depression in the 30s.

So let's skip ahead now to 2008. Our indicators in 2008 were totally upside down. In January of '08, the S&P 500, one of the tools that we use in our indicators, had that ranked last in terms of where we would put money. Money Market was ranked number two and that was in January of 2008. So in '08 we had a somewhat longer runway in the sense that we could see a storm brewing, but we couldn't really tell how extensive it was going to be.

Now let's take a look at today. The S&P 500 ranked near the top of our indicators in mid February. That's only four weeks ago. Money Market, one of our indicators, also ranked last, and this was again mid February. The economy was strong in January. We had housing starts, record number, housing sales, record numbers. So that the markets can withstand a lot, but when there's uncertainty like there has been over the last couple of weeks, when there is no plan coming from Congress or anywhere else, people get nervous and they rightly should. So for the last couple of weeks, stocks have been selling off. There's no secret there, but last week, stocks and bonds both sold off. We saw corporate bond funds sell off, stocks went down because of what's going on in the economy. Bonds went down in part because people need cash to run their businesses or to just have cash on hand.

But I want to go back to 2008 for a moment. I just want to point a few things out. If you weren't around or not investing in the market at that time, Lehman Brothers went out September 15th. A few days later, AIG needed a bailout. Right before that, Fannie Mae and Freddie Mac got bailed out by the government. They were essentially taken over by the federal government. All of that stuff happened in September of '08. The federal reserve began quantitative easing November 25th of 2008, way after all of these things and way after the stock market had already been crashing at that point. The fed also lowered interest rates to zero December 16th of 2008 way after all of these epic moves already.

So I want you to keep in perspective that what the fed has been doing for these last three weeks has not only been faster, but multiples larger than what they did in 2008. So keep in mind that in 2008, not only did we have a recession, but we had banks that were essentially illiquid. They had no money, they had no capital. Now, this past weekend, the federal reserve governor, president of the bank of the federal reserve of St. Louis, Jim Bullard, grabbed a lot of headlines by saying we could have a 30% unemployment rate in the second quarter. Again, you've got to read the story or listen to his comments so you understand and have this in its proper context because seeing a headline like that scares everybody, even me. So what he said was, you need to understand what's going on right now. It's his words exactly. It's a planned, organized shutdown of the U.S. economy. It would be inappropriate to call this a recession. So Bullard, along with a lot of other people are planning for worst case scenarios. It doesn't mean it's going to happen.

The other thing that I want to address right now, at some point, either today or hopefully soon, Congress house and the Senate are going to be announcing a roughly $2 trillion rescue package. I want you to keep in mind that the rescue package that they worked on in 2008 was $750 billion. That's a fraction of what they're rolling out now. Oh, and one more thing. It took them five months to get that package to come to market. They released those details in March of '09, five months after what happened in 2008. So I want you to know that the stock market has priced in a much larger than average recession.

So over the next couple of weeks we're going to start to see economic data. You have to, have to, have to remember that when you hear these numbers, housing starts, purchasing managers reports, unemployment, jobless claims. This is old information. It's old data. It's not a harbinger of what's to come. For the next couple of months, most of the economic data that you're going to hear about is going to be old news. So just like the statements that are going to be coming out in another week or two, it's going to be old news. It's going to tell us what happened in March. It's not going to forecast what's coming in April, May and June.

I'll close by saying this. I'm a lot more optimistic than a lot of people out there. I think we're going to see a terrific next couple of months in the market. We've certainly seen enough bad news. Hang in there. We're going to be okay.