

November 2008
Where Do We Start?

Last month's market activity will merit its own separate chapter in the economic history books. The emotions and the scars will not disappear anytime soon. It was a disastrous month to be exposed to the markets. Nothing was safe to own except US treasuries and cash. The Dow Industrial Average swung 500 and 1000 points in both directions numerous times. The inter-day swings were even larger; the last hours of trading days were night-marish.

Some of the activity was explainable, much of it not. Fear dominated the markets as we teetered on the Edge of the Abyss I wrote about last month. Fear dictated some of the late-day selling to cover margin calls and mutual fund redemptions. Then a reasonable fear degenerated into panic . . . to the point where overnight futures markets traded down to the maximum allowable limit and trading shut down on the S&P 500. With the Dow already trading below 8000, the average might have been cut in half by the end of that day. Fortunately, cooler heads prevailed and we ended down only (!) a few hundred points.

But here came the R word. At the end of September our focus was on the \$700 billion bail-out of the banks. Once this was passed and we stepped back from the abyss of a collapse in the financial structures we depend upon, we looked up to see the tsunami of a worldwide recession descending. Central bankers of the major industrialized countries were galvanized to unite in the first-ever coordinated interest rate cut. Now everyone is at least on the same team with the common goal of stabilization.

What's ahead? Generally, I resist crystal-balling. Too many variables, including variables that may not even exist yet. Still, some events upcoming will have positive effects. We have (blessedly!) the election of a new President, who starts with a clean slate of opportunity. The nation finds energy in the belief that important changes are imminent. The effects of the bail-out may start to take hold before Christmas and credit markets begin to ease. (You can once again get a car loan without putting up your first-born as collateral!) We survive a holiday season that sees retailers discounting like never before to get us into the store. The inauguration in January provides another psychological boost, and we enter the first 100 days of the new administration.

Some time in late winter . . . Oops, condensation in the crystal ball. Through a glass darkly, some will see by next May that the recession might end by autumn. Others will see it lasting much longer.

I'm lining up with the optimists: oil prices down, and a fresh understanding that we are all in this together, globalization hurried through its painful childhood, moving into an adulthood of great promise. I don't mean—for a moment!—that some day we'll all look back on this period and have a good laugh. Too many people got hurt. Too many of the perpetrators may walk away. Still, as the song says, we pick ourselves up, dust ourselves off, and start all over again.