The Roaring 20s, Revisited

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"There is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again"

-Edwin Lefèvre, "Reminiscences of a Stock Operator"-

As we rang in the New Year, I noticed several articles being written by authors from within the financial industry that were alluding to the similarities between the "Roaring 20s" (as in the 1920s) and today with respect to the potential for stocks in the current decade. They were generally expressing that the trajectory of the stock market in the 1920s (up, up, and up) could be matched by a similar trajectory today. These articles indicated that we may be entering an era of unprecedented prosperity, that despite our enormous (and growing) National Debt and the massive and recurring budget deficits here in the U.S. (and abroad), we may still be approaching a precipice of unparalleled innovation while at the same time experiencing a renewed run of untold financial opportunity and the wealth that flows with that. Dow 50,000!! Or so it is claimed. Of course, this is not lost on the investing public or the current crop of stock speculators. The markets have been heating up for months on end, and certain stocks in the market (such as those with any tie-in with what's good for the environment) seem to be going nearly vertical.

Given the context of these articles and seeing firsthand the wild upward moves of certain stocks with real appeal to the speculating community, I felt compelled to re-read the life story of **Jesse Livermore**, the man made famous in the Roaring 20s who reportedly made and lost several fortunes trading stocks, commodities, and real estate. Nothing embodied the frolic of the 1920s with respect to stocks and the associated wild speculative activity at the end of that decade more than the stories told of this man, who certainly seemed to be at the center of it all. Livermore was born in 1877 into a farming family but was a brilliant child who learned to read and write by the age of 3 ½, or so the lore goes. He left home at 14 because the farm life was not for him, and he quickly found opportunity as a "Board Boy" in Boston, making $5 a week. His job was to receive the teletype transmissions of stock quotes from the New York Stock Exchange and then post them on a big board in a large room for all who were present to see, updating them continuously throughout the trading day. In short order, young Jesse began trading for his own account, and in no time he

carved out a knack for making large profits by following trends. He would go on to make over $10,000 by age 18, and the rest, as they say, is history. He would make, and then lose, millions upon millions in his lifetime, and this was at a time when a million was a lot of dough!!

Jesse Livermore cemented his legacy by "going short" the market in mid-1929, just before the great crash of that September and into October. It is written that he made over $100 million in that particular period alone by taking the opposite side of the market from the growing mass of less experienced speculators. His bet was that stocks would fall mightily, and thus, he entered large trades to first sell stocks he didn't own (by borrowing them from those who did), and then he bought them back if (and after) they collapsed. The borrowed (but lower priced!) shares were then returned to their rightful owners, thus allowing Livermore to score enormous profits on the difference. In 1929 the amount of losses to the many were steep, but some shrewd traders such as Livermore (and Joe Kennedy) saw opportunity in betting against the popular names of the day that only seemed to go in one direction, up. It was a great transfer of wealth from those who stayed at the party too long, to the bold traders who were willing to take on the ultra-high risk of shorting stocks.

Livermore lived the high life, was remarkably influential to others who would try to follow his trades, but also had a dark side. Married and divorced three times, he had moments of erratic behavior and would go on to take his own life in 1940, penniless, even though his last wife was a younger Socialite with great wealth of her own. His first wife, and the mother of two of his children, struggled with substance abuse as did his oldest son, both of whom would eventually take their own lives as well. His life story is certainly a fabled one.

The quote at the top of this letter comes from "Reminiscences of a Stock Operator," a book by Edwin Lefèvre, considered by many to be the "stock trader's bible." This book began as a series of articles in the early 1920s that were published in The Saturday Evening Post, a very popular periodical of the era. While published as fiction, it was widely accepted to be the personal biography of Jesse Livermore, and many have speculated that the stories told to the author came directly from Livermore himself. Further, followers of the Post could learn about stock trading by reading these articles, and that likely contributed to a wider public participation in the markets. The book has been reprinted in almost every decade since 1925 (I have a copy in my house somewhere).

As a final note to Livermore, the stock speculator, he did operate during an era where the rules regarding trading were far more lax than today, and he traded at a time when information flow was relatively slow, which meant that some less scrupulous individuals could gain enormous advantages. Additionally, the legend of Livermore was so great that

he became a major “influencer” of his own time, which resulted in others often following along and emulating his trades, which simply served to make Livermore’s trades even more successful. It should also be noted that most of his great trading schemes took place before the creation of the Securities and Exchange Commission (SEC) that would ultimately bring about more strict rules governing market behavior (1934). In fact, in the aftermath of the creation of the SEC, Livermore became relatively inactive in his trading.

So, what happened in the 1920s that made that era such an inviting place for stock speculating in the first place? The U.S. had two economic recessions in the first fifteen years of the new century (after 1900), and then there was World War I. By the 1920s there was a brief period of peacetime and prosperity, and that was an environment that helped the motor car industry gain wide acceptance (due to Henry Ford’s mass production capabilities), provided a better social platform for radio to gain wider influence while other forms of communication and entertainment were growing as well, and there was rapid industrialization around the world while cities were expanding at a more rapid rate with the commensurate growth of electricity usage and primitive technologies. The U.S. needed, and got, a lot of infrastructure, and rail transportation was at the center of it all. The 1920s was a great era that saw a high demand for more capital, and Wall Street was more than happy to create it by issuing a lot of stock. Like any boom era though, there was plenty of opportunity for stocks to be touted and hyped, but sometimes there was outright fraud too, and by the end of the 1920s greed was prevalent, stories of great wealth garnered from stock ownership were widely circulated, and the general public was becoming more aware of the financial windfalls of others who were seemingly making massive fortunes (such as Jesse Livermore). All of this contributed to stoking the deep desires to speculate even more.

In no time the general public was all in, many of them using money they couldn’t afford to buy more stock, and often in unregulated “margin accounts” where stock purchases were being made with borrowed funds with little money down. This had become the perfect recipe for disaster. In August 1929, production in the economy had already declined and unemployment had risen, leaving many stocks in great excess of their real underlying value. Then, on September 29, “Black Tuesday,” the Dow Jones Industrial Average experienced the biggest one-day loss ever with trading volume setting a record and billions vaporizing in the panic. Among other causes of the stock market crash of 1929 were low wages, the proliferation of debt, a struggling agricultural sector, and an excess of large bank loans that could not be easily or readily liquidated. [Does any of that sound familiar?]

So, here we are, it’s **2021**, and comparisons are being made. I understand how some can view the two eras, a century apart, as having some similarities. Today we are on the cusp of enormous technical innovation with Artificial Intelligence, breakthroughs in modern

medicine (look at how quickly we developed a COVID-19 Vaccine!), massive scaling up of electrification, use of solar, rapid internet expansion applications such as “the cloud” (and all the benefits provide by that), and so on. But really, hasn’t advancing science, medicine, and technology always been a part of the fabric of our modern society? Certainly, we have not been in a full-scale war for a long time, but what about the war that is growing within our modern society? “The Left” vs. “The Right”? The haves vs. the have-nots? Big tech vs. the individual? The list goes on. At the end of the day this would be my observation …. any comparison of 1921 to 2021 in terms of the economy, the stock market, or even society as a whole must be viewed with deep skepticism. The differences are simply too great. However, many of the little things that accumulated along the pathway leading to the Great Crash of ‘29 cannot (and should not) be dismissed out of hand.

As the prescient observation above states, *"There is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again.”* I am no better at predicting the future of the market than anyone else, but I have an advantage, as many others do, in that I have been witness to over three decades of daily market action, and I think it would be fair to say that there is something to be gained (experience!!) through active observation and participation. I can attest that much of the most nebulous speculative behavior that occurred by the masses in the late 1920s (and is well documented) are very present here in our modern markets today.

The big question, if we are supposedly making comparisons, is this …. are we equal today to the conditions of 1926 (three years ahead of the crash), or 1927 (two years), 1928, or are we perhaps already comparatively equal to the same conditions of late August 1929, the month the Dow Jones peaked? We won’t know the answer until we have the benefit of hindsight, of course, but there is little question in my mind that there is currently a wave of wild speculative activity going on out there. When $3 stocks become $30 stocks in just a few months, when IPOs (Initial Public Offerings of stocks) that are deemed to be worth $12 by sophisticated financial analysts come to market at $20 and then rise to $40 on their opening trade (and there are many instances of this example occurring), or when a mature stock is expected to be added to a major index (such as the Russell 2000 or the S&P 500), and thus moves up 50% or more in a matter of weeks or even days as the result of such an announcement, I know that all of this is not typical market behavior. It is, and always has been, much more characteristic of late-stage bull market behavior. It is also a telltale warning sign to the more well-informed. However, the one thing it is not (<u>and this is important!)</u>: it cannot be taken as a certainty that the current bull market has come to an end. That too can only be determined with the benefit of hindsight.

In conclusion, there is no change to my recommended asset allocation models from prior recent letters. This highly charged, very bullish, very liquid market suggests to me that it may be the right financial climate to continue to use caution if you do not have a strong stomach for volatility, and keep some powder dry (cash assets!) in the event there is a sudden and unexpected reversal. Conditions are ripe for a significant correction at the minimum, and potentially a severe decline at the maximum, but your patience in waiting may be put to the test. Valuations in some sectors have become obscene, but as we have learned from other buoyant markets, there may not be a ceiling to price obscenity! Patience is a virtue, and I believe this is a time for great patience. Additionally, on the fixed-income side, yields on the 10- and 20-year Treasuries have been on the rise, which means their prices are in decline. This is a recent change. I would continue to recommend low to no exposure to these assets (and others like it) if your investment time horizon is relatively short (two to five years). As always, you should consult with your personal advisor while weighing your individual goals and circumstances. Lastly, the U.S. Dollar Index has stabilized for now at a lower level than a year ago, but the longer-term trend to me appears to be lower. This may be a supportive tailwind for Emerging Market stocks and may help further support current precious metals prices. As for the gold mining sector (of which I have been extremely favorable towards), we will be getting many updates from many of the individual mining companies for the quarter ending December 2020, in about ten more business days. I expect many results to be stellar.

Be well. Additionally, you can visit my website at **davidatstifel.com** for continuing financial information.

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Asset allocation does not ensure a profit or protect against loss.

Past performance is no guarantee of future results. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees.

The Dow Jones Industrial Average (DJIA) is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market.

There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events.

Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.