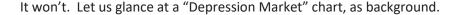
The Outlook: March 21, 2020

Always the same word, eventually: "Depression!"

One word that crops up in every single market crash—including many "crashes" which seem trivial as we look back upon them—is "Depression!" Even though we're only about 20 trading days into this crash (making it the fastest in market history), we began hearing that word in Week One, and by now we're hearing it daily, or possibly hourly. That will go on for a while—because it's a terrifying word, which almost nobody really understands. (Those are the best kind of terrifying words.)

The message intended for us by that word, these days, is roughly this: "Watch out, because the Virus Crash is new and different, and so deadly it has an excellent chance of wrecking the economy and market (and all of us, personally) for 10 years, just like the 1930's."





Now let's try to be brief—never easy at Outlook—and list the facts investors need to know, about the Depression and the 1930's stock market.

• The market took about 2.5 years to fall 89%, from October 1929 to June 1932, or so. That's awful. But it began at the kind of mentally-unbalanced valuations we saw in the Dotcom Bubble. It had a correction coming. Regardless of the few Tesla's and Beyond Meat's in the 2019 market, its general valuation level was not on the same planet as in 1929. A great many of 2019's

stocks, representing historically-strong U.S. industrial companies, were "anxiously or cautiously valued," just as they had been through most of the 11-year Bull Market.

- That Depression Market then spent 4 years rising, by 371%--which brought it back to its level in 1928 or so, after a great decade of economic growth, and before the last 12-18 months of lunacy ending in 1929. (The Dotcom Bubble acted much the same.)
- Finally, the Depression Market then spent the next 5 years falling again, by 51%, until WWII triggered the never-ending revival.

So the Depression Market got what it had coming, then tried successfully to recover, but couldn't keep it up. Why? Let us ponder a few facts, and wince.

- 9,000 banks were allowed to fail during the decade, most of them in the first several years. (Milton Friedman estimated that at 30% of the banks in the U.S.) Without FDIC insurance, depositors were wiped out. Knowing the continuing runs would be allowed to wreck any bank, depositors "ran" on them—which made perfect sense for them—and thereby caused the failures to keep going. They also kept their money, when they were able to get it, out of the banking system, which meant the money supply contracted by about a third, and deflation ruled the land.
- To "cure" the problem, both President Hoover and Roosevelt hiked taxes sharply every other year from 1932 to 1938, roughly.
- Both governments imposed wage and price controls: mandating that wages stay high (regardless
 of employers' ability to pay) and prices stay either high or low, depending on which sector of the
 economy was in trouble.
- Under both governments, but particularly under Roosevelt, government regulation of the economy was just intense, and mounted every year.
- And of course, Hoover's Smoot-Hawley Tariff Bill declared a trade war on the rest of the world not just a couple of countries—which declared war right back.

All of these actions did the opposite of what was intended. They hurt the economy instead of helping it. In sum, they were actions taken by officials and politicians who hardly understood anything about how economies and banking systems work. The Depression was not a failure of free-market capitalism. It was a 10-year demonstration that misguided government actions are quite capable of wrecking any economy—even a 1930's U.S. economy which tried very hard, partly successfully, to return to growth despite the burdens.

So, are we really at risk of a repeat, today? We'll end with a few more bullet points.

• Nothing could be more different than Federal Reserve behavior today, compared to the 1930's. (And the same for the rest of the world's central banks.) They clearly understand—a lot better than 2008, even—that when some external event paralyzes an economy, the entire banking sector and credit market must be supported by endless supplies of cash from the Fed. "Whatever it takes!" sums up their thinking, and they are perfectly correct.

- President Hoover insisted on balancing the budget, as the economy crashed—hence his tax hikes, followed by even sharper tax hikes under Roosevelt. Despite the major differences in political philosophy today, nobody is talking about tax hikes or balancing the budget. Quite the opposite, what with \$2 trillion dollar stimulus plans, payroll tax cuts on the agenda, tax deadline postponements, and a lot more.
- The last 4 years have seen the sharpest decline in business regulation in 20 years.
- Despite all the talk about "Trade War" over the past couple of years, U.S. and global tariffs are trivial today, compared to their Smoot-Hawley days.

In other words, today's companies and consumers are infinitely stronger than they were in 1930; and today's government officials and politicians (enough of them, anyway) aren't about to repeat the jaw-dropping mistakes of their Depression-era counterparts. They'll certainly make some mistakes . . . but nothing like the endless stream of "blow up the economy" mistakes, back then.

The heart of the economic and market problem, at this moment, is how governments will handle the tradeoff between trying to save every possible life from the Virus, and letting the economy get back to work to keep a recession from being deeper and longer. There are some things which are rather likely to make that tradeoff a little easier: the arrival of warm weather, the arrival of drug treatments, and finally the arrival of vaccines. All three are going to arrive—the only question is "when?" But the tradeoff will have to be faced before they're all here, and the uncertainty about exactly when that will happen is giving the market its worst headaches at the moment. We're not in the 1930's though, no matter when "when" arrives. We are not on the same planet, when it comes to all those bullet points up there. That will become obvious to the market eventually.

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