Recent Data Points to Different Market Direction

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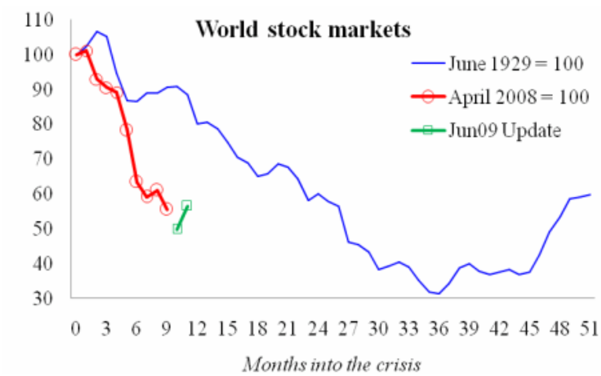
Barry Eichengreen and Kevin O'Rourke just published follow up data to their original "A Tale of Two Depressions." The paper indicated that we were in a depression. The present figures, however, are more encouraging. Eichengreen is from the University of California at Berkeley and O'Rourke from Trinity College in Dublin.

The authors used world industrial output, world stock markets, volume of world trade, and central bank discount rates data for the study. In every case, the movement was downward in the original analysis.



From Eichengreen and O'Rourke

As an example, the world stock markets figure is reproduced above. The descending momentum of the earlier data shown in red is even more alarming than the 1929 trend. However, the new data just published shown in green indicates a reversal of that trend. The other parameters studied were similar in direction.

The question is whether this data means anything for the average investor. There are three possibilities. The uptick can continue. Or, it could reverse and go down again. Thirdly, it could flatten out and limp along for quite some time with intervening ups and downs. Obviously, no one knows what really will happen.

There is one crucial point to keep in mind though, since most people can't help but try to figure out what past statistics might mean for them (in spite of the fact that they know they don't predict the future). Since our current economic situation is a crisis rather than a routine periodic correction, it could take years to recover rather than the usual one and a half to two years. For example, in my article entitled The Current Market: A fresh look at when to invest I show figures that indicate the 1973-74 decline was due to an oil crisis, not a routine downturn, and took seven years to recuperate. Along these same lines, Carmen M. Reinhart from the University of Maryland and Kenneth S. Rogoff from Harvard University indicate in their working paper on NBER (National Bureau of Economic Research), "The Aftermath of Financial Crises" that "the depth and duration of the slump that invariably follows severe financial crisis…tend to be protracted affairs." If past historical data is predictive of the future, now might be a time to be cautious. As Martin Glenn, the CEO of Birds Eye Iglo Group, said in the Financial Times, "All investment decisions are inherently risky because they require you to make a known financial bet about an uncertain future."