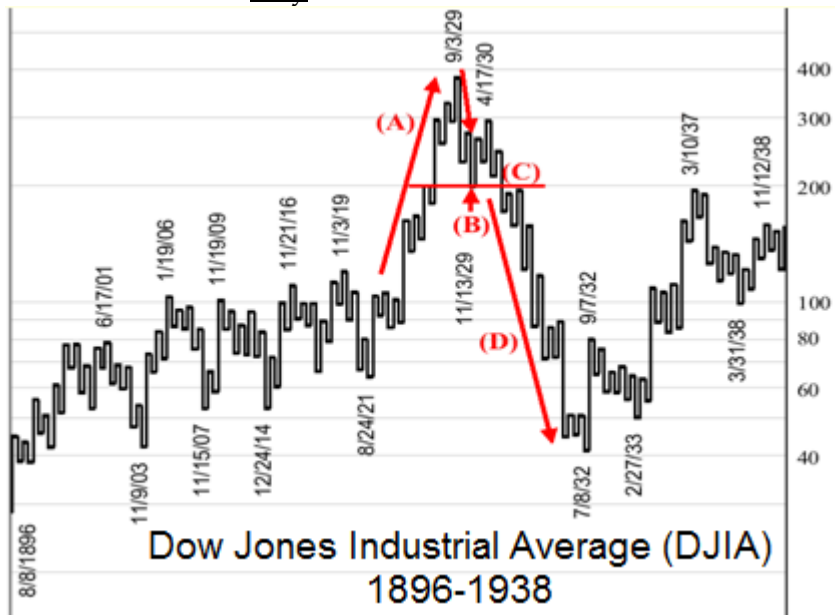


October 17, 2008 – 1929

The credit crises and resulting stock market crash over the past year can really only be compared to one other time in modern history...1929. The causes of The Great Depression are still the fodder of debate among economists to this day but it is clear that structural changes to the economy led to the crash of the stock market: massive bank failures, a deflation in asset and commodity prices, and lack of credit availability were some of the main factors that ultimately lead to the stock market collapse and widespread unemployment and poverty in the 1930's. Do the reasons for The Great Depression sound familiar? It sounds like Deja-vu all over again here folks. If the economic issues of 2008 are most similar to 1929 then it is prudent we should take a look back at what happened to the stock market in '29 to see what we may be in store for in the near future.



What needs to be made clear from the above chart is, the wealth was not wiped out in 1929 like we all have been led to believe. Yes the DJIA fell from roughly 400 to 200, or 50% in a couple of month period in 1929 marked by the top of (A) to (B) on the chart. The DJIA recovered to 300 on 4/17/30 so it was down only 25% or so at this time. The real wealth was wiped out from 4/17/30 to 7/8/1932 when the DJIA fell from 300 to 40...-87%!!

As of this writing, the S&P500 index is down 43% from its highs. This is similar to the 50% initial loss in '29. Will we get a massive stock market rally from here to move us up to the 1930 level? And then fall 80% in the next couple of years? Most likely no...as there has been unprecedented liquidity (money) pumped into the banking system from governments around the globe to help prevent The Great Depression II. It does not mean it will be successful and prevent another depression, it simply means it is less likely to occur.

It took 25 years for the DJIA to get back to the 1929 highs. Not a good 25 year period to be investing for retirement in a "buy and hold" type of portfolio. There are some very smart investors who believe the U.S. could be in for a long difficult economy. One thing that can be learned from 1929, 2008 and the other 13 major bear markets in between is we need money management systems that raise cash during stock market corrections. Avoiding catastrophic losses is key to long-term investment success.

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