
Santa Ana Register
FINAL EDITION
BILLIONS LOST AS STOCKS CRASH
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MAINSTAYS OF MARKET IN PLUNGE

The Great Crash of 2022 – What happens next? Go read the Book!

Description

Blain's Morning Porridge, 6th May 2022: The Great Crash of 2022 – What happens next? Go read the Book!

"That which does not kill us, makes us stronger…."

This Morning – *Yesterday's market meltdown was heralded as a "capitulation trade", but who knows? What we do know is there an awful lot to worry about, and the conditions for the BIG ONE have been building for decades. Time to re-read* ***The Great Crash, 1929****.*

There is nothing like a 6.30 am swim against the tide on cold, grey morning in muddy near-freezing water to remind you of why we spend so much money on mattresses and warm snuggly duvets. Of course, a swim should have been a wonderful moment to contemplate what the papers are calling the **"Capitulation Trade"** – as stocks posted their worst day in a couple of years and bonds tumbled…. But… Keeping up my momentum against the building down-tide was my primary concern.

Does that mean I missed the opportunity to liquidate my entire account before the end of everything – which might be later this afternoon? Oh dear…

On Wednesday, the market welcomed Jay Powell's 50 bp hike with a relief rally. Yesterday it puked and reversed all its recent gains. What changed? Who knows, but was yesterday really the beginning of the big and negative **something** we've all been waiting for?

Maybe, maybe not. Who knows? Who can tell? If I knew I wouldn't be swimming in dirty cold rivers to stay fit, nor would I be writing about it each morning!

The thing is there are *market crashes*, and there are market crashes. And there are **Market Crashes**… Confused? You will be, but let me try to explain…

Let's start this morning by taking the lotus position and reciting Blain's Mantra No 1, 10 times: "**The market has but one objective, to inflict the maximum amount of hurt on the maximum number of participants**." Om..

Yesterday's news rumour mill was working overtime. Despite lining up a whole gang of super-villains to support his Bid, I don't think Musk will acquire Twitter on this offer. Not just because of the regulators now circling it, but I suspect he's going to step back and think it through. He'd be daft not to as conditions change… but his credibility is on the line.. so daft it may still be..

Back in the real world, talk of massive investor withdrawls, funds in trouble, banks worried about margin calls, and a host of little horrors. Things like Meta ordering a "hiring freeze as growth slows", concerns about ARK, Tiger Fund and a billion other little signals things are getting a bit noxious out there..

On the other hand, let us not feign surprise if this overhyped market collapses. We've all known markets have been struggling for months. Sentiment is precarious. Momentum has been flat. We've been waiting for positive signals to resume the upside, but instead a host of exogenous and endogenous shocks from Ukraine, Energy and Food Inflation, Rate Hikes, QT, tax rises and politics have roiled sentiment. Even Robinhood traders can understand that is people have lower real earnings and savings are stretched, then they won' consume as much and therefore the economy will slow… Doh.. even my puppy get's that..

Crashes occur when the voting machine that is the market suddenly shifts, and the "maximum number of participants" find themselves on the wrong side of the move. Often a trigger is needed – like yesterday's crash caused after the euphoric "buy-the-fact" rally was a replaced by the realisation a) the Fed is hawkish, b) the Fed doesn't really know…

That's a feature of all good crashes – the folk we think know everything; the brilliant entreprenuers, the leaders of industry, the Titans of Finance, and Megamind Hedge fund managers are exposed as not knowing terribly much… (*Or swimming naked as the tide goes out*, as someone famous once said…)

Crashes are momentum moments. They become a chain reaction: As the shift occurs players worry less about chasing the market higher and start to question why its falling. As they lack information, they wonder what others might now, their core beliefs are shaken, concerns are magnified, sentiment is rocked, fear triggers selling pressure, causing the herd to stampede, and all these behaviour shifts coalesce in a cascading ripple of panic that roils and rolls round the market. Bing, bosh, bank… criticality is reached.

Yee Ha!

Some crashes occur as a slow correction – when it becomes clear inflated financial assets expectations have been over-egged and that the returns are not as promising as hoped. The game becomes finding the "***greater fool***" – who will be the buyer at the top of the market as everyone else exits. The "greater fool" will often sell at a loss to another "*optimistic idiot*" who thinks the asset looks cheap as it falls, but doesn't really the bubble is well and truly popped.

- That happened with the Dot.Com bust in 2000 and seems to be happening today with Names in

Ark, and busted flushes like Meta and Netaflix.

Some crashes occur as a sharp correction, when a massive sentiment bubble unexpectedly pops, causing the market to crash. Such crashes can reverse fairly quickly.

- The great Hurricane Black Monday Crash of 1987 was such an event – every major market crashed between 20-40%. It came on the back of a 300% rise in global stocks over 5 years, big bang in London, global growth and recovery after the bleak ‘70s, but the trigger was a series of tax changes and a rising trade deficit in the US. Suddenly everyone wanted their money out – triggering a stampede for the exits, and a timely reminder the New York Stock Exchange has 27 doors marked “entry” but only one says “exit”.

And some crashes happen because the market has just been fooling itself too long. Imagine a world where massive amounts of central bank liquidity have been juicing stock markets and keeping bond yield low for a decade, where financial assets have been trading a repeated record highs in spite of lethargic economic growth, where the global economy is wracked by supply chain breakdowns, a global epidemic, out-of-control inflation and increasing geopolitical tension and the threat of war? Imagine a world where a single automaker meeting a fraction of the world’s auto demand is worth more and makes less than all the other manufacturers combined?

- A good example of what is to come might be The Great Crash of 1929.

The Great Crash was the inevitable culmination of the gilded boom time of the Twenties, the excesses of the Gatsby era, and a fervent belief the world had changed and unlimited wealth and jobs were the new, new normal. Speculation, most famously in fetid Florida swaps, was rife. Credit was free and easy – and pretty much out of control. Everybody believed.. till the moment they did not.

It all went south in October ’29. The inter-day falls were not record breaking, but collectively a 5-Black-day series was the worst collapse in stock market history. There was a mean reversion in the stock market over 3 years completely wiping out all the post-WW1 gains. Critically it triggered years of banking failures and economic decline as bankruptcies’ and corporate failure swept the US. It triggered global depression and ushered in the rise of populism in Europe. Recovery required a war.

The initial political responses – like protectionist trade policies in the US – simply made the crash in global trade even more damaging. Eventually it was realised greater financial regulation an oversight was required, while Roosevelt’s new deal went to some to repair the social damage in the US.

So let me set Porridge Readers some homework this weekend. Arm yourself with a copy of John Kenneth Galbraith’s fantastic and entertaining book **The Great Crash 1929**. See if you can spot any parallels.. If not… have you been paying attention?

If you want to understand the future.. understand the past..

No time for five things.. Have a great weekend

Bill Blain

Strategist – Shard Capital

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1. Economy-Business-Fin/Invest
2. Main

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