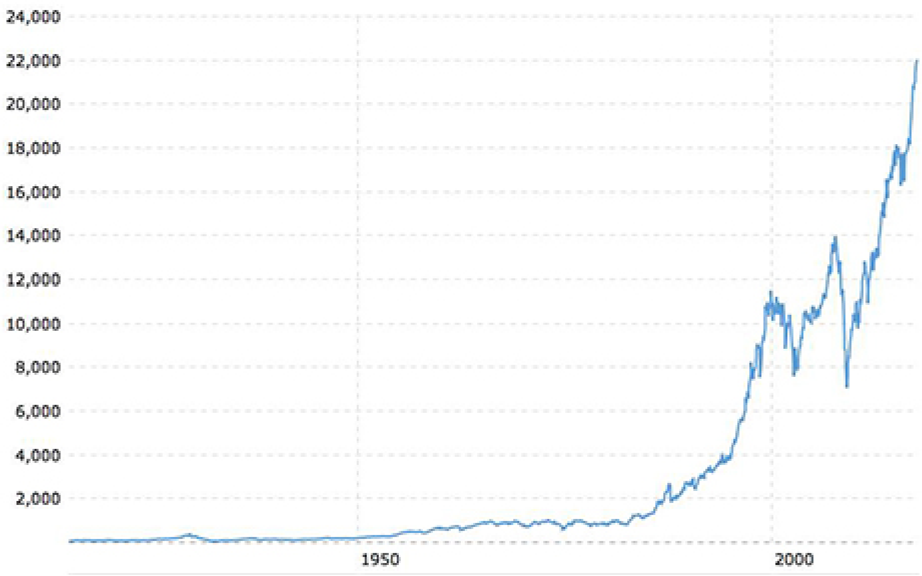
A 37-Year Debt Buildup Is About to Crush the Market

Retrieved Friday 18th of August 2017 06:32:43 PM

In a departure from tradition, today we'll let pictures tell most of the story. We'll merely add some narrative to give the story context.

Our tale of woe begins in 1980.

The Dow Jones Industrial Average (below) was a touch below 1000 points.



Source: MacroTrends
[Click to enlarge]

After a pretty torrid time during the 1970s, there was not much faith in the share market's ability to create wealth.

How wrong that turned out to be.

Over the past 37 years, the Dow has risen 22-fold.

To put that performance into perspective, the Dow Jones was around 50 points in 1900…it took 80 years to rise 20-fold.

The almost parabolic rise of the Dow in the mid-to-late 1990s was, as Alan Greenspan famously said, a period of 'irrational exubera

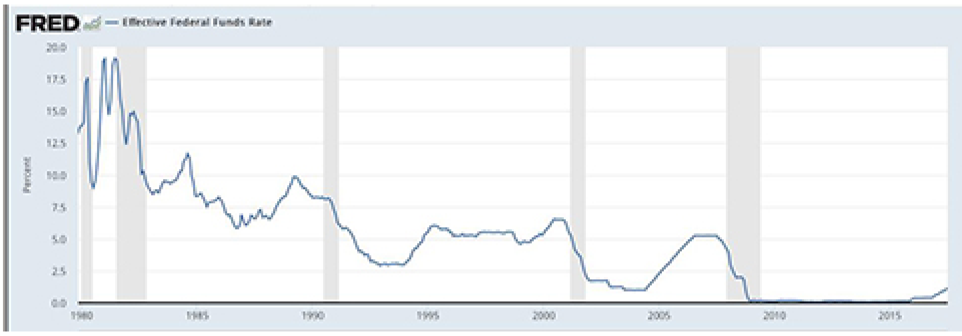
Since the dotcom bust, the Dow has continued to act irrationally…bordering on insanity.

Ironically, it was the very person who delivered the 'irrational' prognosis who also released the interest rate straightjacket. Greenspa

We know how that ended in 2007–08 with the onset of the financial crisis.

Now look at the vertical face of the Dow since 2009 and tell me how this is going to end any differently.

The following chart on US interest rates since 1980 shows how the accumulation of US$220 trillion in global debt was made possibl



Source: Federal Reserve Economic Data (FRED)
[Click to enlarge]

Whenever the US economy and/or share market has experienced a bout of difficulty, the good doctors at the Federal Reserve Bank

Is it a coincidence the Dow's vertical trajectory has occurred at the same time interest rates have fallen close to zero? Or is it a case

Investors, starved of decent returns, have been forced to chase yields. Corporate America was on to this yield demand early on, eng

That little flicker upwards in the Federal Funds Rate, on the far right of the chart, is the Fed's pathetic attempt to put some 'meat' on

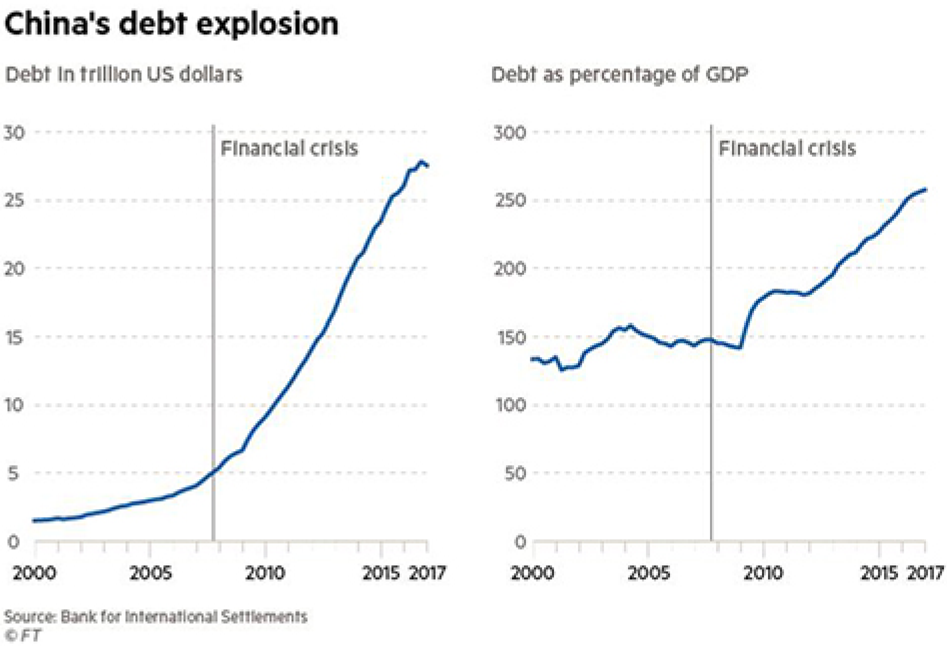
In the aftermath of 2008, Australia was more of an interested spectator. The worst of the debt crisis was playing out in the Northern

The Middle Kingdom was our great saviour. China's seemingly endless appetite for Aussie resources gave us the mining boom. Del

With six-figure incomes on offer for driving a truck, there was an exodus to mining towns.

But very few people, including our clueless ex-Treasurer Wayne Swan, questioned where China was getting the money for this reso

The following picture tells the story. China's debt levels also went parabolic after the financial crisis. China's so-called 'miracle' econ



Source: Financial Times
[Click to enlarge]

The Aussie Recession Survival Guide: How to protect your wealth in a fast-shrinking economy

In this urgent investor report, *Markets and Money* editor Vern Gowdie shows you why Australia is poised to fall into its first 'official' r

Simply enter your email address in the box below and click **'Send My Free Report'**. Plus…you'll receive a free subion to *Markets ar*

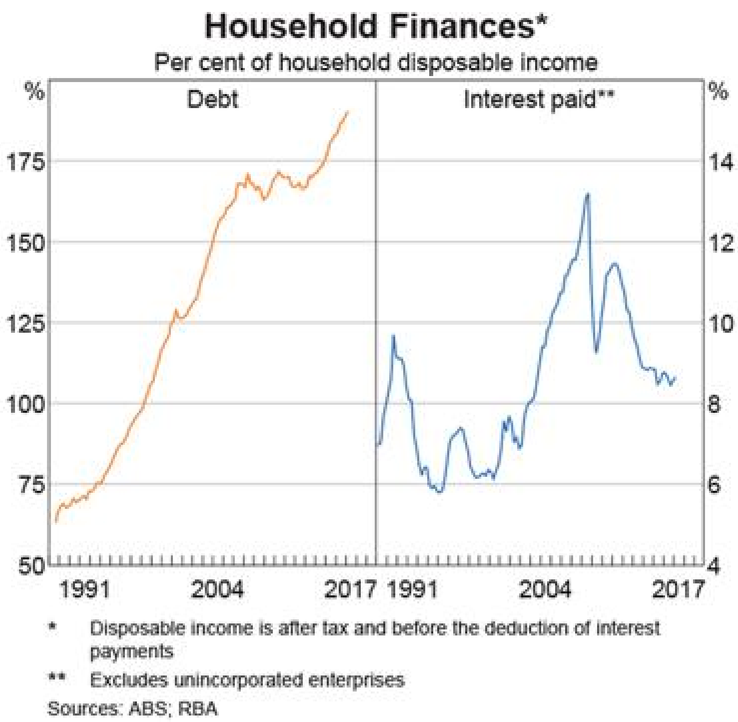
We will collect and handle your personal information in accordance with our Privacy Policy.

You can cancel your subion at any time.

Safe in the knowledge our economy is bulletproof (no recession since 1990) and that our banks are the safest in the world, the RBA actively encouraged Australian households to load up on debt.

The mining boom passed the baton to the housing boom.

The Australian household sector now has the shame of being the 'most indebted in the world'.



Source: Reserve Bank of Australia
[Click to open in a new window]

Let's put these pictures together and see what the bigger story is here.

The Dow Jones is perched precariously at a record high. It's been put there by the same policies that produced the two previous bubbles…which both burst spectacularly.

The Federal Funds Rate — the 'go-to' weapon to fight previous downturns — is out of ammo.

The legacy of debt accumulated since 2008 means China has very little capacity to engage in another spend-a-thon.

Australian households — with little wages growth and rising energy costs — have never been more vulnerable to a serious market disruption.

What if the Dow does fall hard, wiping out 50% or more in value?

The Fed won't be in a position to provide support to artificially reflate the market. Therefore, the US share market will be left to stand on its own two feet.

After being propped up for so long, the market's 'muscles' have been seriously weakened…which means there could be many falls on the path back to recovery.

As we saw in 2008, a collapse on Wall Street will not happen in isolation. Global markets — shares and property — will be caught in the downdraft.

Without another debt-fuelled saviour coming to our rescue, heavily-indebted Australian households are not going to be so lucky next time.

All that's happened since 2008 has been an accelerated pursuit of the policies that caused the crisis in the first place.

People have been lulled into a false sense of security.

They believe policymakers actually know what they're doing.

Nothing could be further from the truth.

In creating the illusion that all is OK and debt is good, they've placed us in a far more dangerous position than in 2008.

Record high markets. Record high debt levels. Record low interest rates. This all adds up to a market collapse that will also be one for the record books.

This is our tale of woe. A tale that began so innocently in 1980.

Nearly four decades later, we're about to find out how this story ends. I suspect it'll be more like a horror movie than a fairy-tale.

If you're indebted and overexposed to markets, this is a story that should be keeping you awake at night. And one which should have you actively positioning your portfolio to stave off the worst effects from the fallout.

Regards,

Vern Gowdie,
Editor, *The Gowdie Letter*

- Author
- Latest Posts

Vern GowdieEditor at Markets %26 Money

Vern Gowdie has been involved in financial planning in Australia since 1986. In 1999, Personal Investor magazine ranked Vern as c

His previous firm, Gowdie Financial Planning, was recognized in 2004, 2005, 2006 %26 2007, by Independent Financial Adviser ma

He is a feature editor to Markets and Money and is Founder and Chairman of the Gowdie Family Wealth and the Gowdie Letter adv

Latest posts by Vern Gowdie (see all)

- A Story to Keep You Awake at Night - August 18, 2017
- The System Has Set Us Up for a Massive Failure - August 14, 2017
- Ignoring Ignorance Can Be Costly - August 11, 2017
- The Chart That Sets the Stage for a Stock Market Correction - August 7, 2017