

145 Years of Market Progress Will Be Reversed by Complacency

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The Dow Jones hits a record high.

The New York Stock Exchange margin debt reaches a record high.

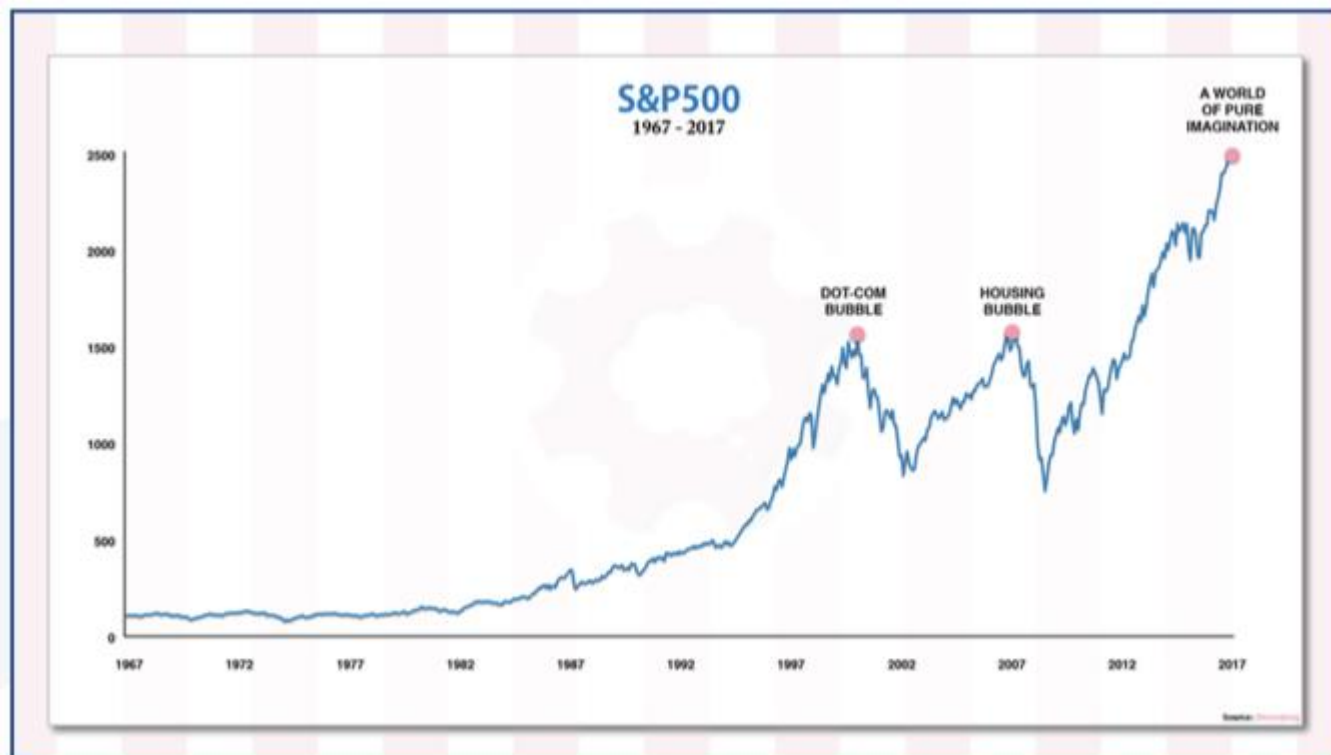
Complacency, as measured by VIX, the fear index, is at an all-time low.

Don't people realise that when anything market related is prefaced with 'record' or 'all-time' it's closer to the end, and NOT the beginning?

Apparently not.

Haven't US investors seen the chart below? Or heard the saying 'a picture paints a thousand words'?

Apparently not.



Source: TTMVGH

Oh that's right... 'it's different this time.'

Somehow the same ill-fated stimulus policies that were instrumental in creating the two previous bubbles, are going to achieve a different result this time.

Seriously, are people that stupid?

That was a rhetorical question.

For more than 35 years we've been conditioned — by self-serving investment industry propaganda — to believe 'share markets always go up'.

Well, that claim is going to be severely tested in the not-too-distant future.

The share market has gone up over the very long term — the operative word being ‘has’.

By very long term, I’m talking in excess of 100 years.

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However, during this century of ascendancy, there have been periods when major share markets tread water. These flat-lining periods

This inconvenient truth is conveniently airbrushed out of industry marketing material.

And then there are periods, like we’ve seen from the early 1980s to now, when the share market shoots the lights out. It’s this extraordinary

Take a good look at investment industry marketing material...the performance graphs all commence from 1980. They’re clever...cheating

However, there’s no dispute that, over the very long term — dating back to 1875 — the share market has ‘gone up’.

Belief systems are established over a long period of time. And more than 140 years of data certainly qualifies as ‘long term’.

But what if there’s a disruptor — like a sustained period of deflation — that meant that what *has* been is not what is going to be?

What if share markets fail to deliver to the extent we have become accustomed to?

Ridiculous. Not going to happen.

Is it?

The 20th century was an amazing period in mankind’s development. Mechanisation. Sanitation. Medication. Financialisation. And, finally,

All these factors contributed to an extraordinary period of growth. The likes of which have never been seen before...and possibly may never

As evidenced by the trajectory of the S&P 500 graph, the US share market rode this extraordinary century of prosperity and growth.

But at the very beginning of the 21st century, the market collapsed with the end of the dotcom boom.

The Fed stimulated growth to create the second bubble — the US housing boom.

We know how badly that ended in 2008.

It’s only fitting that the latest asset bubble is the most magnificent that’s ever been blown. A record high followed by a historical collapse.

Belief systems will be shattered. It’s possible that a generation or more of investors may be so scarred by the experience that they stop

Extrapolation — projecting the past into the future — is one of the biggest mistakes investors make.

Do you really think the current trajectory of the S&P 500 is going to continue without major disruption? Investors obviously do.

To avoid being part of the herd that gets slaughtered, you need to think for yourself.

In my book — *How Much Bull Can Investors Bear?* — I dedicate a chapter to why the past is not necessarily going to be like the future.

‘Study the past, if you would divine the future.’

- Confucius

‘Extrapolating the past into the future — and believing that what has been will continue to be — is a common mistake.’

‘When it comes to investing, if markets have been bad, the general consensus is that they’ll continue to be bad. On the other hand, if they’ve been good, the general consensus is that they’ll continue to be good.’

‘Extrapolation is not confined to markets.’

‘Over a century ago, the world’s major cities had a serious problem — horse dung.’

‘In 1898, delegates from across the globe gathered in New York City for the world’s first international urban planning conference. One of the topics discussed was horse dung.’

- Horse Power to Horsepower, by Eric Morris

‘While this seems funny today, back then, mounting piles of horse manure were anything but a laughing matter.’

‘For centuries, horses were the mode of transport. As populations grew, so did the number of horses — and the piles of manure...’

‘The problem the city’s fathers faced in the late 1800s was not new. In Ancient Rome, Julius Caesar banned horse-drawn carts between the hours of 10am and 4pm.’

‘Between 1800 and 1900, the US population expanded by 30 million. More people meant more trade, which, in turn, meant more horse-drawn transport.’

‘The railway did relieve some of the horse-drawn transportation issues. However, within the towns and cities, goods were still delivered by horse-drawn carts.’

‘The first public transport system in New York was the Omnibus (carrying up to 120,000 passengers per day). A bus pulled by a team of horses.’

‘In the wide open spaces of Wyoming, the increase in horse numbers was not a problem. There was plenty of space for natural fertilisation.’

*‘In New York, it was estimated that, on a **daily basis**, there was 1.8 million kilos of horse dung and 150,000 litres of equine urine to deal with.’*

‘Naturally, all this horse waste became a pedestrian nightmare — especially when it rained. In addition to the obvious issue of dodgy smells, there was the problem of flies.’

Global Financial Crisis 2017: Three Crisis Scenarios, and How They Could Impact on Australia

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‘There is nothing like a dung pile to attract flies. The spread of typhoid and diarrhoea (especially among infants) increased mortality.’

‘With this brief background, you can see why the 1898 urban planning conference had horse manure as the most pressing topic on its agenda. Apparently the meeting was scheduled to last for 10 days. After three days the meeting was terminated, as no acceptable solution to the problem could be found.

‘The issues associated with too many horses had plagued Rome nearly 2,000 years ago and was such a long established trend that

‘According to Eric Morris:

“The situation seemed dire. In 1894, the ‘Times’ of London estimated that by 1950 every street in the city would be buried nine feet

‘Based on the knowledge at the time — population growth and volumes of horse waste — you can appreciate the math behind the f

‘These days, the only horse poop in New York is around Central Park, where horse and carriage rides await to take love-struck and

‘The “piles of poop” forecast is known as “extrapolation” — taking an established trend and projecting it into the future. The problem

‘In the case of mounting horse poop as a trend, we know the advent of the combustion engine didn’t just change the trend, it killed it

If we replace the extrapolation of ‘horse poop’ with ‘debt levels’, can we realistically expect current record high debt levels to continue

Record debt has brought forward an enormous amount of future consumption.

The share market has been a major beneficiary of debt-funded consumption feeding into corporate profits. What if that ‘growth’ mod

This could be the disruptor that turns a 145-year trend — share markets always go up — on its . This has certainly been Japan’s exp

When the proverbial hits the fan, the share market may have an unpleasant odour that lasts for a very long time.

Regards,

Vern Gowdie,

Editor, *Markets %26 Money*

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Vern Gowdie Editor 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



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