Bill Gary's

PRICE PERCEPTIONS

Technical Update

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Next Test – The "Real" Economy…

Following the 1987 stock market crash, I made a trip to Indiana to see an old friend who had lived through the depression. His name was Cy Fox and his memory of events during that period were as clear as if they had happened only a few years earlier.

One of the most interesting parts of his story was how fast the "real" economy fell following the stock market crash. He was employed at the Stutz Bearcat factory in Indianapolis during the crash. Worried about his future, he asked the manufacturing vice president if he should be worried about his job. The vice president replied: "There is not a thing to worry about Cy, we have back orders for nearly two years of production. Our biggest problem will be in meeting delivery schedules."

Cy was quite relieved after his conversation with the vice president as he was recently married and had taken out a loan at the bank to buy a new car. However, it was just two months later (after Christmas) when all employees were notified the plant was closing. Unfilled orders were cancelled as banks refused or could not honor prior loan commitments.

The point of this story is to illustrate how quickly the "real" economy collapsed following the crash on Wall Street. Today, the Treasury and Federal Reserve have many more tools at their disposal to inject capital into banks, insurance companies and other financial institutions. However, the current capital crisis is *global*. The world's largest economies, Europe, Japan and the US, are intertwined financially as never before. Banks and financial institutions in these nations continue holding complex instruments that cannot be valued accurately. Therefore, government pumping of billions into these institutions does not guarantee resumption of lending adequate to support the "real" economy.

I was asked recently to describe this situation in easy to understand terms. My reply was: "You can view the stock market crash as an earthquake. The greatest shock may be over, but there will be many aftershocks. However, the earthquake has generated a tsunami that will hit the "real" economy in months ahead. It depends on the extent of damage to the "real" economy as to how long and deep the recession will be."

The Dow Jones Industrial Index fell to 212.33 the last week in October 1929. However, the actual 1929 low was 195.35 in the second week of November. From that point, the index advanced 52% to 297.25 by mid-April, 1930. From that time, the "real" economy was washed away by the tsunami and the index eroded to an eventual low of 40.56 in July 1932.

It is impossible to judge how severe or long the "real" economy will suffer following this year's stock market crash. However, one thing is relatively certain, *the "real" economy has yet to experience the fallout from the Wall Street meltdown*.

We expect commodity markets to experience a period of consolidation until more is known about potential damage to the "real" economy. However, odds favor a return to bear market trends into next year.

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