1929: INSIDE THE GREATEST CRASH IN WALL STREET'S HISTORY – AND HOW IT SHATTERED A NATION PART 1: THE ROARING TWENTIES

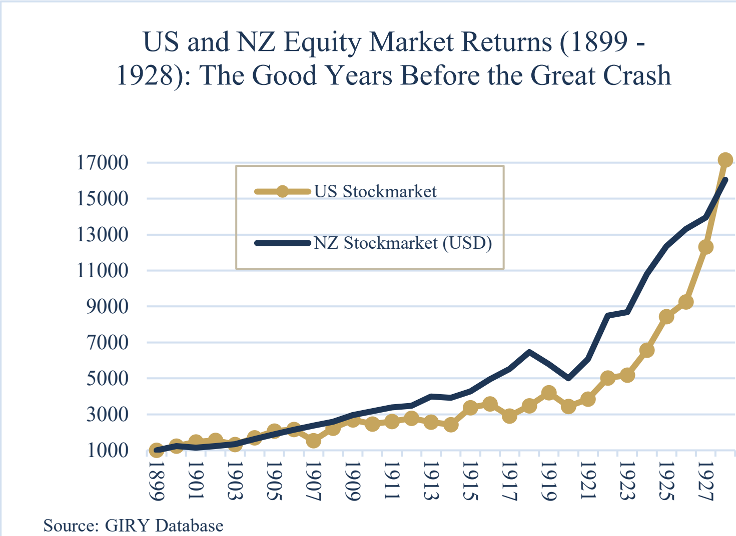
Extreme economic environments, like extreme weather conditions, hold a morbid fascination for many people, including this writer. The 1929 Crash, Germany's hyperinflation and the 1987 share market meltdown in NZ occasioned all manner of unusual behaviour amongst investors and were often life changing experiences for those involved. In his book The Great Crash of 1929 US economist, JK Galbraith, wrote that "clerks in downtown hotels were said to be asking guests whether they wished the room for sleeping or jumping". Many people who survived that event avoided debt, and the finance world generally, for the rest of their lives. My parents were born just before and just after the 1929 crash, respectively, but they were impacted by those times too and my mother famously advised me, a couple of years after I had left Tasman Pulp & Paper to start Craig & Co with Neil "that you had better hope you never have to get a proper job". With that rather dire scenario in mind I have always maintained an allocation to high quality bonds in my portfolio.

As well as being interesting, extreme economic conditions can also give us a novel perspective on the attributes of various asset classes and how investor behaviour responds to challenging conditions. For example in the 1929 – 1941 period of deflation US consumer prices fell dramatically so that many borrowers, and their banks, went bust. Government bonds paying 3% proved to be the best investment around simply because they were risk free and of a long duration. Conversely in the German hyper-inflationary period of 1922-23 when inflation hit 209 billion percent (according to the authors of the Global Investment Returns Yearbook, Dimson, Marsh and Staunton) low risk bank deposits proved to be anything but low risk with their value completely eroded by the high inflation: People got their money back but it was worthless. In another edition of the Global Investment Returns Yearbook DMS wrote that in 1923 the German government needed 300 paper mills and 150 printing works working day and night to produce bank notes.

Whilst far less disruptive than 1929, the 1987 crash has greatly impacted my own perception of the financial markets and behaviour: in the days immediately after the Black Tuesday crash of October 20 1987 NZ retail investors swung to either extreme of the greed and fear continuum on a daily basis. One day the phones would all ring at once and the market would rise and the next day despair would set in, the phones would go quiet and the market would fall. After a month or so of increasingly brief periods of euphoria followed by longer duration episodes of disappointment the optimists realised that just because a share had been $7.00 and was now $2.00 that didn't mean it was cheap. When it became obvious that the party was well and truly over everybody eventually became depressed, went back to their day jobs, and the phones stayed silent until about 1992. That didn't mean brokers' offices weren't busy – most firms spent millions cleaning up the administrative mess that had resulted from the unprecedented trading of 1986 – 1987. After that experience I kept a close eye on daily revenue and expenses and, whenever considering a capex decision, like a printer or a portfolio management package, was far more inclined to buy it outright rather than rent so as to minimise operating leverage.

No surprises then that a year or so ago when I read that there was a new book on the 1929 crash that had just been written by Andrew Ross Sorkin, the author of Too Big to Fail which chronicled the events of the 2008 financial crisis, I immediately ordered it. As usual it has taken almost a year to get around to reading it. In the next four columns we will take an in-depth look at the 1929 crash and where possible make comparisons with what it was like as a retail stockbroker in New Zealand 1987 whilst providing supporting data from the GIRY database, which my firm has a subscription to. According to Chat GPT 1929 "*is a narrative history of the Wall Street Crash of 1929, the people who drove it, the institutions that failed to stop it, and the political and social consequences that transformed America. Sorkin spent years researching previously unpublished documents and personal archives to reconstruct the events leading up to the crash and the Great Depression*"

The years immediately preceding the great crash are popularly known as the "Roaring Twenties" and based on some of the movies about that period it must have been a wild time – maybe even better than Whakatane in the late 70s. The decade preceding the crash was marked by rapid technological innovation and economic expansion. Automobiles, radio, electricity, and mass-production techniques transformed daily life and fuelled extraordinary growth. The United States emerged from World War I as a global economic leader, and many Americans believed they were witnessing the beginning of a permanently prosperous age. This optimism extended to the stock market. Investing became increasingly popular among ordinary citizens, not just wealthy financiers. Buying shares was viewed less as a calculated financial decision and more as an opportunity that everyone should seize. As stock prices continued to rise, confidence grew stronger, reinforcing the belief that the market would keep climbing indefinitely. Sorkin demonstrates how this collective enthusiasm created an environment in which caution was often dismissed as pessimism. Success stories filled newspapers, and financial leaders were celebrated as visionaries.



The prevailing mood encouraged participation rather than restraint as evidenced by the following famous quotes:

"*Stock prices have reached what looks like a permanently high plateau*", Irving Fisher, Yale economist, two weeks before the crash.

"*No congress of the United States every assembled, on surveying the state of the union, has met with a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquillity and contentment … and the highest record of prosperity.*", President Calvin Coolidge, December 4, 1928.

So the 10 years prior to the crash likely conditioned investors to believe that stockmarkets only went up. But the environment of rising equity prices existed well before the Roaring Twenties: in the years 1900-1927 the US stockmarket produced an average compound return of a respectable 10.3% pa with NZ shares not far behind at 10.1% pa. The last major crash was The Panic of 1907 when the market fell by 37% from its previous high, in 1906. However investors who remembered that time would likely have been consoled by the fact that it only took three years to regain its previous high and even at its nadir the 1907 crash didn't retest the levels prevailing in 1900. Sorkin quotes Albert Einstein, who alludes to the inability of humans to learn from the past when he said, on October 26 1929, two days after Black Thursday: "*The ordinary human being does not live long enough to draw any substantial benefit from his own experience and no one, it seems, can benefit by the experience of others. Being both a father and a teacher, I know we can teach our children nothing … each must learn its lesson anew*". Despite Einstein's cynical view maybe there is one takeaway from history and that is that the 1907, 1929 and 1987 crashes all occurred in October with the 2008 downturn only arriving a few days earlier on September 29th.

We have already exceeded our word count. Next time we will consider one of the major reasons for the1929 crash – the high level of debt employed in the late 1920s to finance the purchase of shares.