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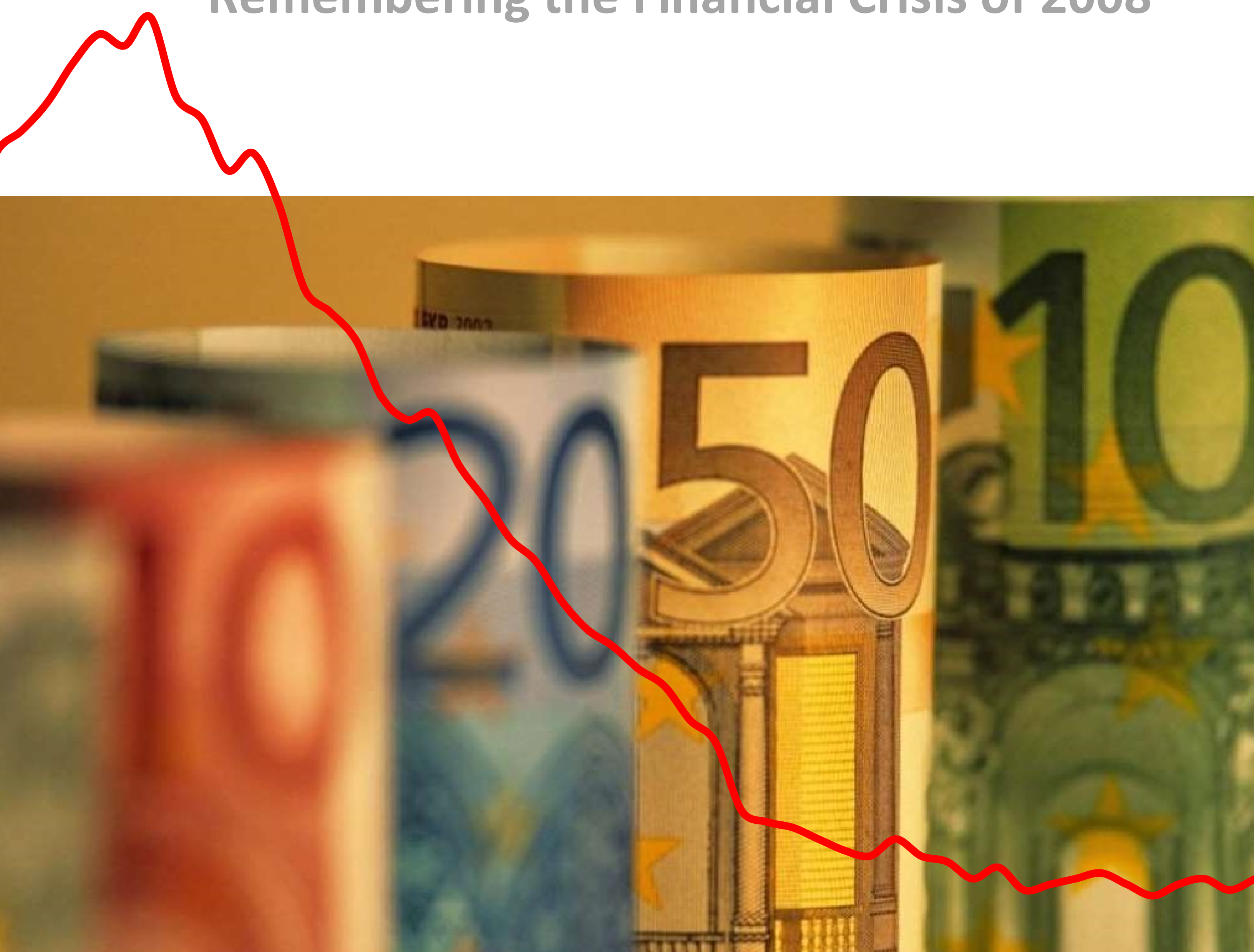
Xicon Economics

2008

Remembering the Financial Crisis of 2008



2008

Remembering the Financial Crisis of 2008

Herbert M Barber, Jr, PhD, PhD

The year will remain one of the worst years in the history of the United States for generations. People lost their businesses, homes, and livelihoods in one fell swoop. Yesterday they were living the dream; today they were dissolved into nothingness. And this nightmare played out in all but 22 countries around the world—all because Main Street bankers frivolously loaned monies to persons they knew could never service the associated debt loads.[1] But they loaned money anyway. And as they defaulted on their debt obligations, the world economy suffered.

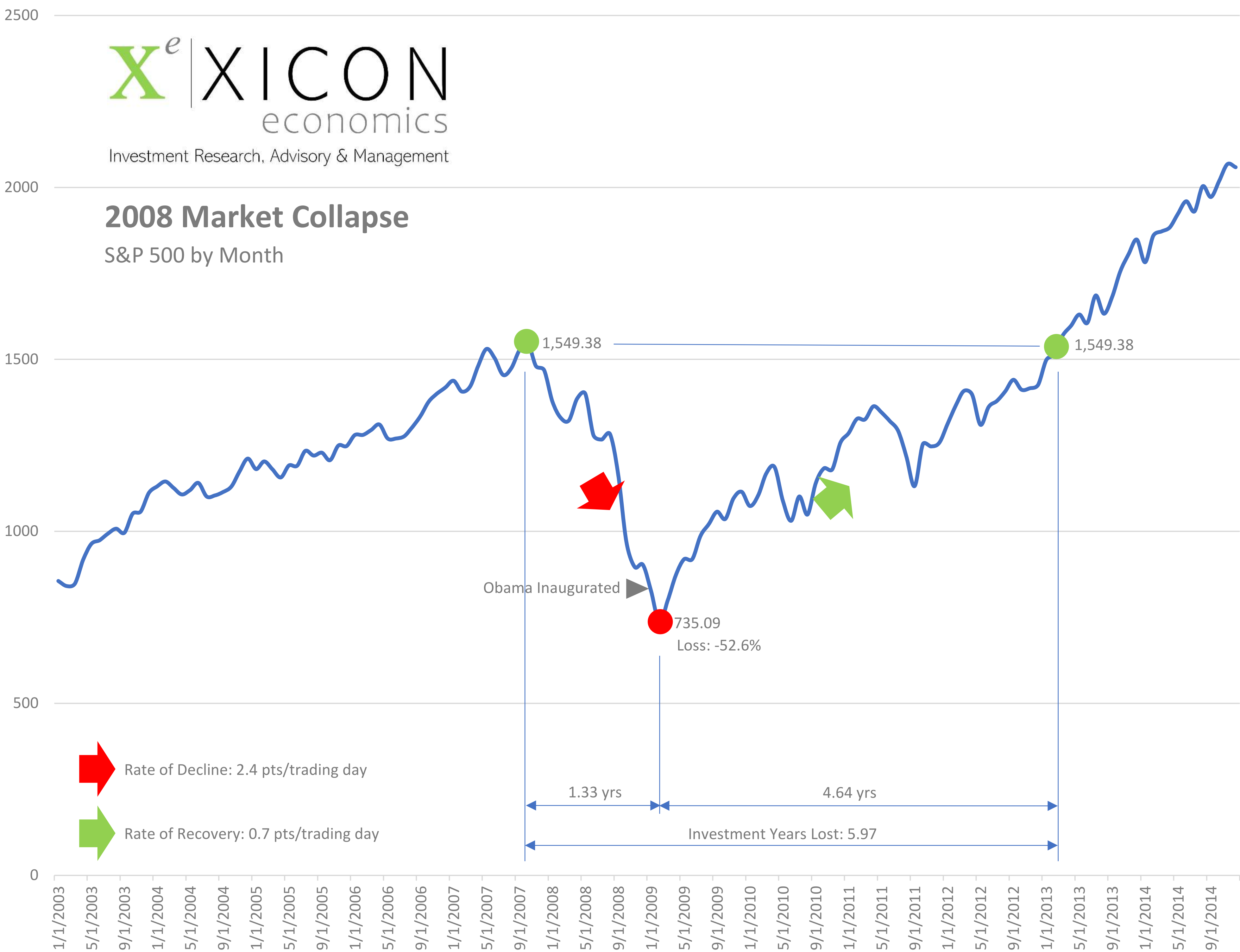
Fueled by George W Bush's foolish idea that everyone should own a home, and dumped into the hands of Barack Obama, the world struggled for years to right itself. And while the US market righted itself in a few years, the US economy struggled painfully for eight arduous years, and then, only after Obama wasted trillions of dollars in the foolish hopes that "Too Big to Fail" would help. With little doubt, history will depict this period as one of the most foolish of our times. At this point, we are left with no choice but to move forward, trying not to repeat such foolishness.

To find the origin of the 2008 financial crisis, we must go back much farther than Bush and Obama, however. Bush and Obama were merely the straw that broke the camel's back, as they say. We must go back to the mid-1990s, the days of Clinton when the economy was strong, jobs were plentiful, incomes were increasing, and market output was solid. However, increases in market output soon proved unsustainable as it began outpacing its underlying economic foundation.

The market began its fall under W Bush in October 2007, and lasted just over a year (1 yr, 4 mo). However, its struggle to return to its high lasted closer to 5 years (4 yrs, 7 mo); and when the dust cleared and the market settled, investors had lost nearly 53% of their portfolios. But even then, the fallout proved far from over, as nearly 5 additional years would be required to recover its losses, and even more years would be required to regain its trend prior to the collapse.

To understand the impact of the collapse more clearly, assume you had $1,000,000, total, in the market October 2007. Just 15 months later, you would have lost 52.6% of your investment, or $526,000, leaving you with only $474,400. But worse, you also lost any returns you would have made during the next 4 years and 7 months as the market recovered. Assuming the annual return during those years averaged 12%, you also lost $898,000 from forfeited returns, meaning **your total loss was $1,420,000, over just less than 6 years.** Today's lesson? *Be wary of investing in funds whose returns mimic those of the market.*

1. Though bankers on Wall Street created the means to handle such ill-advised transactions, it remained the responsibilities of bankers on Main Street to vet each loan candidate, a task they did not do; hence, causing the collapse of the world economy.
2. Obama wasted trillions on "Too Big to Fail" companies, reducing the 9-year economic recovery period by a single year.



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economics
Investment Research, Advisory & Management
2008 Market Collapse
S&P 500 by Month
2500
2000
1500
1000
500
0
1,549.38
1,549.38
Obama Inaugurated
735.09
Loss: -52.6%
Rate of Decline: 2.4 pts/trading day
Rate of Recovery: 0.7 pts/trading day
1.33 yrs
4.64 yrs
Investment Years Lost: 5.97
1/1/2003
5/1/2003
9/1/2003
1/1/2004
5/1/2004
9/1/2004
1/1/2005
5/1/2005
9/1/2005
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