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Enjoying market's glorious ascent

SOME AMERICAN INVESTORS ARE SO haunted by the stock market crashes of 1929 and 1987 that they cannot fully trust or enjoy the current bull market.

It's too bad, because investors who placed their entire savings in the Standard & Poor's 500 Index on the day before the 1987 stock market crash would have nearly tripled their money by now; not a bad return for poor market timing.

There are three major differences between today's economic climate and those of 1929 and 1987: expansion of global markets, heightened global competition, and increased competitiveness of the US economy. While a market crash is always possible, it is probably unlikely given today's low inflation, interest and jobless rates, and America's central role in the global economy.

The 20th century saw four distinct economic eras.

The first era began at the end of World War I and continued until the start of World War II. During this period we were, for the most part, an agrarian and textile economy. Before 1936 there was little regulation of the securities industry.

The second era spans the years from the end of World War II to 1973. During this time, the United States was the world's economic superpower as Europe and Japan rebuilt their countries following the war. During this period the US had scant competition. This lack of competition was negative because it did not prepare the United States for the impending competition from Japan in the automobile and electronics industries.

The third era began in 1973 with the emergence of global competition, particularly from Japan, which

gained market share in the United States because it manufactured high-quality products and sold them at low prices. US manufacturers underestimated the Japanese competitive threat and did not invest in research and development or in plant modernization. Slowly, US products became noncompetitive.

World events such as the oil embargo in 1973 and the resulting double-digit inflation and high interest rates caused havoc in the US stock market for the remainder of the decade. The 1980s didn't start out much better. The US deficit soared. By 1987 investors had lost confidence in American corporate management and in our ability to compete in a global economy. They began selling stocks. The crash of 1987 makes sense when you view it in the context of the noncompetitive state of our corporations and the ballooning federal deficit.

The fourth era, characterized by a competitive America, began swiftly in the wake of the 1987 crash, which acted as a thunderous wake-up call to corporate America. Chief executives were tossed out, the downsizing of America commenced, and the Bush administration raised taxes to try to reverse the federal deficit. Quickly, American businesses learned that the way to take back market share from the Japanese was to produce higher-quality goods and begin showing profits at lower, competitive prices. As the Clinton administration continued to work to lower the deficit, long-term interest rates fell and the Dow Jones industrial average began its ascent from 3,000 to 8,000.

The US economy in 1997 is lean, occasionally mean, and highly competitive. The stock market loves two things: growth and earnings. Today's economy is brimming with growing companies that are thriving in the expanding global marketplace. Corporate profits are alive and well in the United States.

Will the bull market end someday? Of course, but look for three telltale signs: higher inflation, higher interest rates, and disappointing corporate profits. There is no sign of these three warning signs today. It took 75 years of capitalism to achieve this level of economic prosperity. We might as well enjoy it while it is here.

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