

# Preface

When I began this project, the name I originally selected the "The Dow & The Future." The more I explored the past, the more it became clear that it was impossible to discuss purely the stock market without involving not merely economics, but also foreign exchange and commodity price movement as well as the events within the eternal sea of politics itself.

No matter who takes up the crusade to write of events long since past, they often begin with some preconceived notion of what may have taken place. Others often select facts which only support their own distorted or personal views. I should state for the record that when I began this project, I was under several false assumptions. The preconceived ideas that I had at the outset, were completely destroyed in the final conclusion. The compiling of all these facts and statistics has taken what often seemed to be a lifetime, but in the end I have emerged with a more clear understanding of how and why we are now in the position that we so sadly find ourselves today.

The political topics which rise to the surface throughout this work are the facts as they remain. My personal political philosophies have been enhanced and reborn by this research and it is not the other way around. Although some of the commentary will undoubtedly be controversial from the political impact of this work, let me state for the record that I emerged with a clear understanding for the concerns of our forefathers of these United States which is so amply stated by the words of Thomas Jefferson: *"Sometimes it is said that man cannot be trusted with the government of himself. Can he, then, be trusted with the governments of others? Or have we found angels in the*

*forms of kings to govern him? Let history answer this question.*" I believe this book is perhaps one among many which answers the words of Thomas Jefferson.

Just as politics cannot be ignored when reconstructing a historical review of economic events, it is also true that we ourselves have a difficult time ignoring our preconceived notions of various relationships which the markets have with one another. These numerous relationships between various markets and interest rates are but one aspect of this study and what you are about to read will change your preconceived notions as it did my own. I will give you a clue here at the outset. The most definitive relationship that the stock market has is not with interest rates, but with foreign exchange movement! Beyond the mere exploration of the various relationships, the one major revelation which will jump out at you as you travel from year to year reading first hand the contemporary fundamental explanations of the day, perceptions of why and how markets move, has been altered and shaped by the strange events of this century. What you may believe right now, tomorrow you may ask how it is possible others could still believe such things.

As a lover of history, I have explored countless records of these events far beyond what is normally taught as part of any formal educational program. Early in life, I became fascinated with ancient cultures and the origins of civilization itself. The more I read and explored the archives of the past, the more I became startled by the amazing parallels from an economic perspective. It became clear to me that money and trade were the two greatest driving forces which had shaped man's destiny.

Events and circumstances on the surface merely appear to change, but underneath, the reality of the causes and effects remained constant from one century to the next. I was compelled to discover the details, delving perhaps deeper into the past than most would have considered worthwhile. I was impressed with the manner in which Julius Caesar handled a major debt crisis by calling a moratorium on all interest payments. The consumer debt, so to speak, had risen substantially, driving interest rates even above the 100% level at times. His actions were undoubtedly the real motive for his assassination since many of the noble Roman Senators who had thrust their daggers deep into his being were the very moneylenders of the day. I studied the various monetary reforms of many emperors of Rome and read with amusement how the Emperor Diocletian in 286 AD instituted wage and price controls in an attempt to curb runaway inflation. As a result, this study also embodies government and its actions to control the economy of its people, which is a battle that began at the very dawn of civilization. What was true of Rome has been true of modern society as well. The parallels are but their waiting to be seen. What you are about to read is the triumphs, trials and tribulations of an era riddled with debt, saddled with inflation and crushed by warring trade factions.

Throughout history, man has speculated on one thing or another. It is his very nature to do so. He has bought and sold everything from slaves and real estate to tulips under such a speculative fever. Real estate speculation spread throughout Rome when news of Pompey the Great's defeat by the hand of Caesar came. Throughout my studies of both modern and ancient economies, I could not find even one period which was void of some kind of speculative fever. All things which have risen during waves of speculation have

eventually collapsed in the aftermath. There are no survivors, no exceptions! The great bull market of the Roaring '20s was not unique to man's record of follies, nor is the Great Depression and the collapse of the Dow Jones Industrials from 386 to 40 points in 1932 a freak in the archives of man's economic past. Such things are **NOT** abnormal, but completely **NORMAL**! They are not the by-product of shoe shine boys scrambling for tips on the stock market, and they are not the by-product of an unsophisticated economic order which we have so ingeniously overcome.

What took place during the Roaring '20s and during the aftermath, will one day take place once again. No matter how many laws governments may try to write and enforce, it is man's nature to speculate upon the future. There were many mutual funds that collapsed during the 1930s. The rise in commodity prices into the mid 1970s and the precious metals which carved their monumental high during 1980, were both similar events which took place during the Panic of 1919 preceding one of the Greatest Bull Markets in History. As long as man retains his human nature, great waves of speculation will engulf the world periodically. The only questions are how, when and why! The greatest driving force behind the bull market was the exodus of capital from bonds into stocks. That was sparked not by shoe shine boys, but by governments who overextended. The defaults of South America, much of Europe and the abandonment of the gold standard by Britain all had their impact in the sage of the 1920s and 1930s. That is what this book is all about.

# Acknowledgements

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I am also grateful to Princeton University, the London School of Economics, Oxford University and the British Newspaper Library for the use of their facilities through which much of the research was accomplished making this dream a reality.

I am also grateful to Adam Smith and Joseph M. Schumpeter for their devotion to the understanding of economic movement and the invaluable reference works which they have left behind and for their influence upon my own economic thought.

The foreign exchange charts that are provided throughout this study have been constructed by taking the quotations from the Wall Street Journal. The quotes which appear in these charts on a monthly basis are the closing of each month in question.

The various indexes on consumer prices, producer prices, business inventories, population, trade, gross national product etc. have been taken with permission from "Economic Statistics 1900-1983," published by the Economist magazine of London, England unless otherwise stated.

The advertising that appears throughout this text is not paid for. It is advertising which appeared during the year in which it has been incorporated within this work. This has been done to provide readers with a sense of the period so that they may read for themselves what those of the era would have also been influenced by at that time. Some of the companies whose advertisements appear in this work no longer exist. Other are still alive and well. The coupons, I assure you, are no longer valid offers!

I have refrained from employing footnotes throughout this project, electing instead to embody directly within the text the sources which have been utilized and why. I have written this work in a style which is intended to be different; I have provided the sources and then offered by own commentary thereupon. This is intended to allow you to discover what I myself read holding nothing back and in so doing, perhaps your mind will also be enlightened as to the real causes and effects.

***Martin A. Armstrong***