

Booms and Busts

...and what lies around the corner

Major market bubbles and corrections often coincide with periods of economic and political transition

And that is what we are seeing right now with the global economic system



by Alan Hull

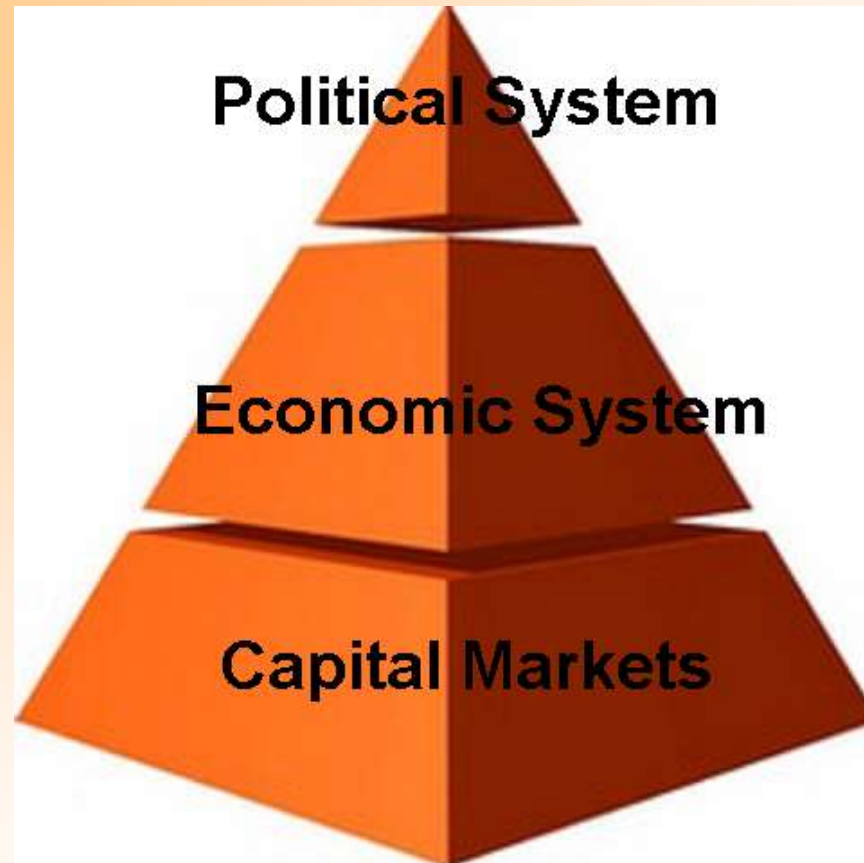
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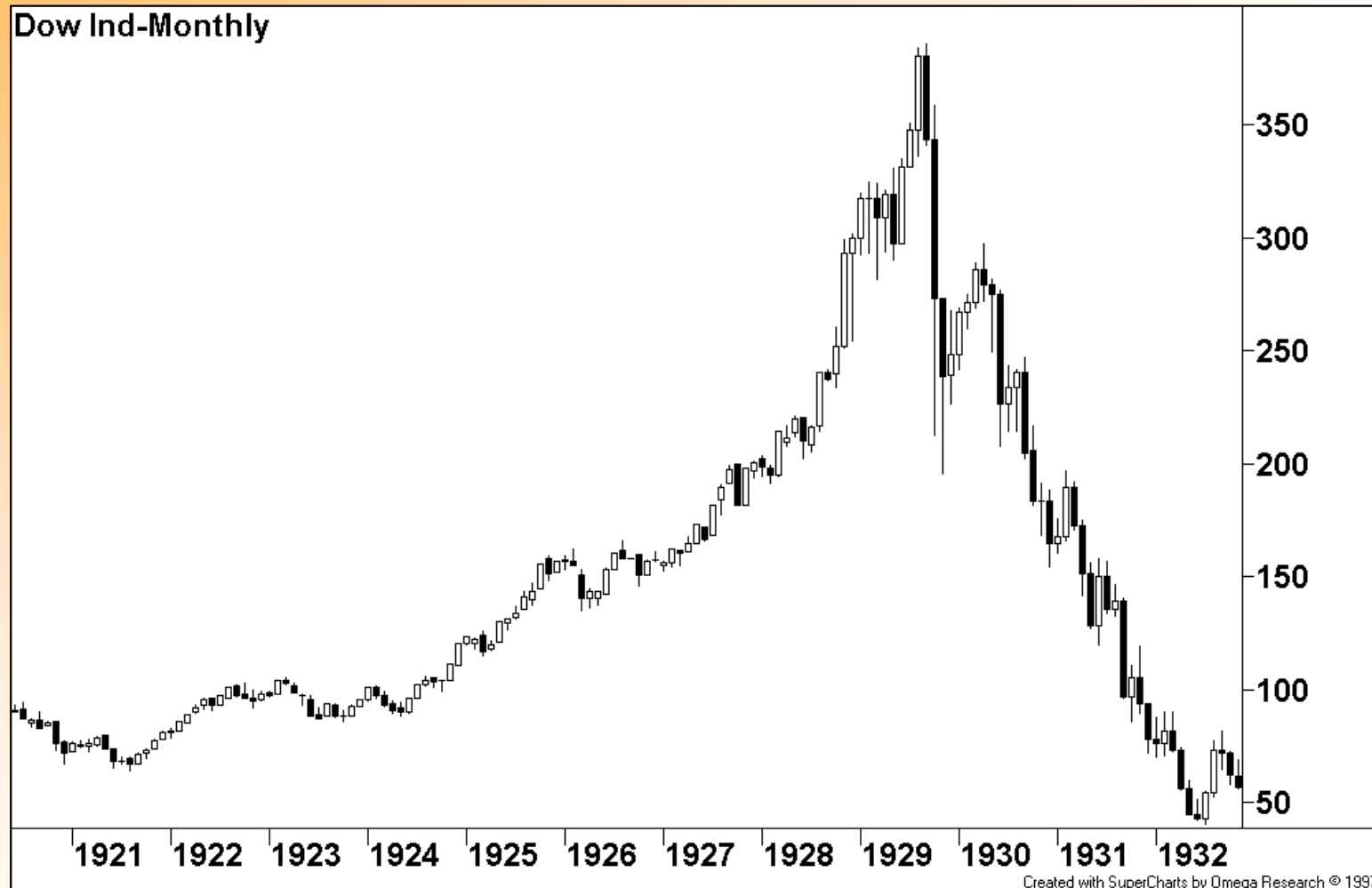
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What is a Stockmarket? Where does it fit into the overall scheme of things?



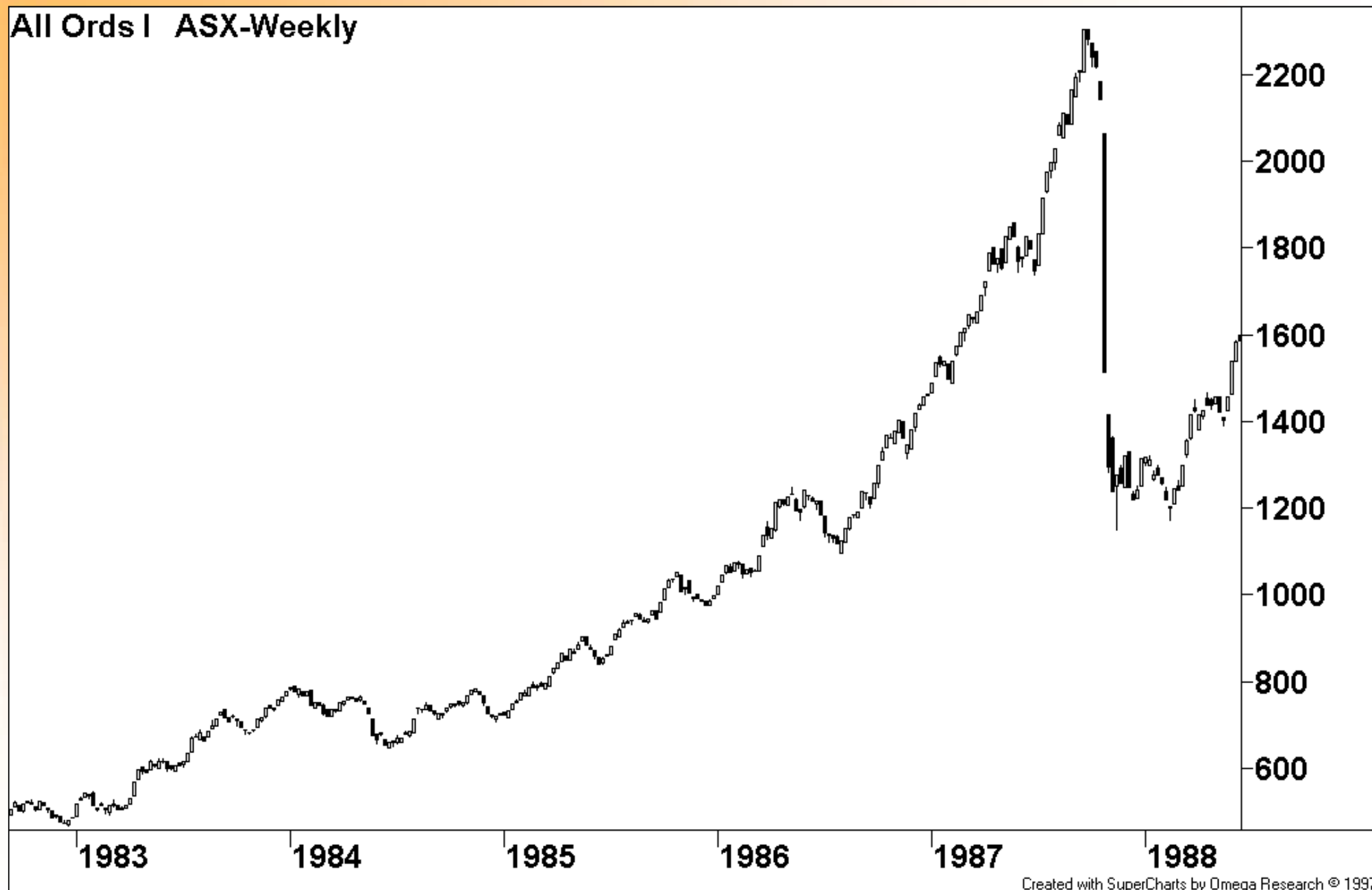
In large part though, it's an output device for the economy that it's attached to

What is a boom/bust cycle?



**We see a boom/bust in the Stockmarket,
which is a reflection of the economy**

All Ords I ASX-Weekly



Nasdaq Comp WCM-Monthly



HangSengCash WCM-Monthly



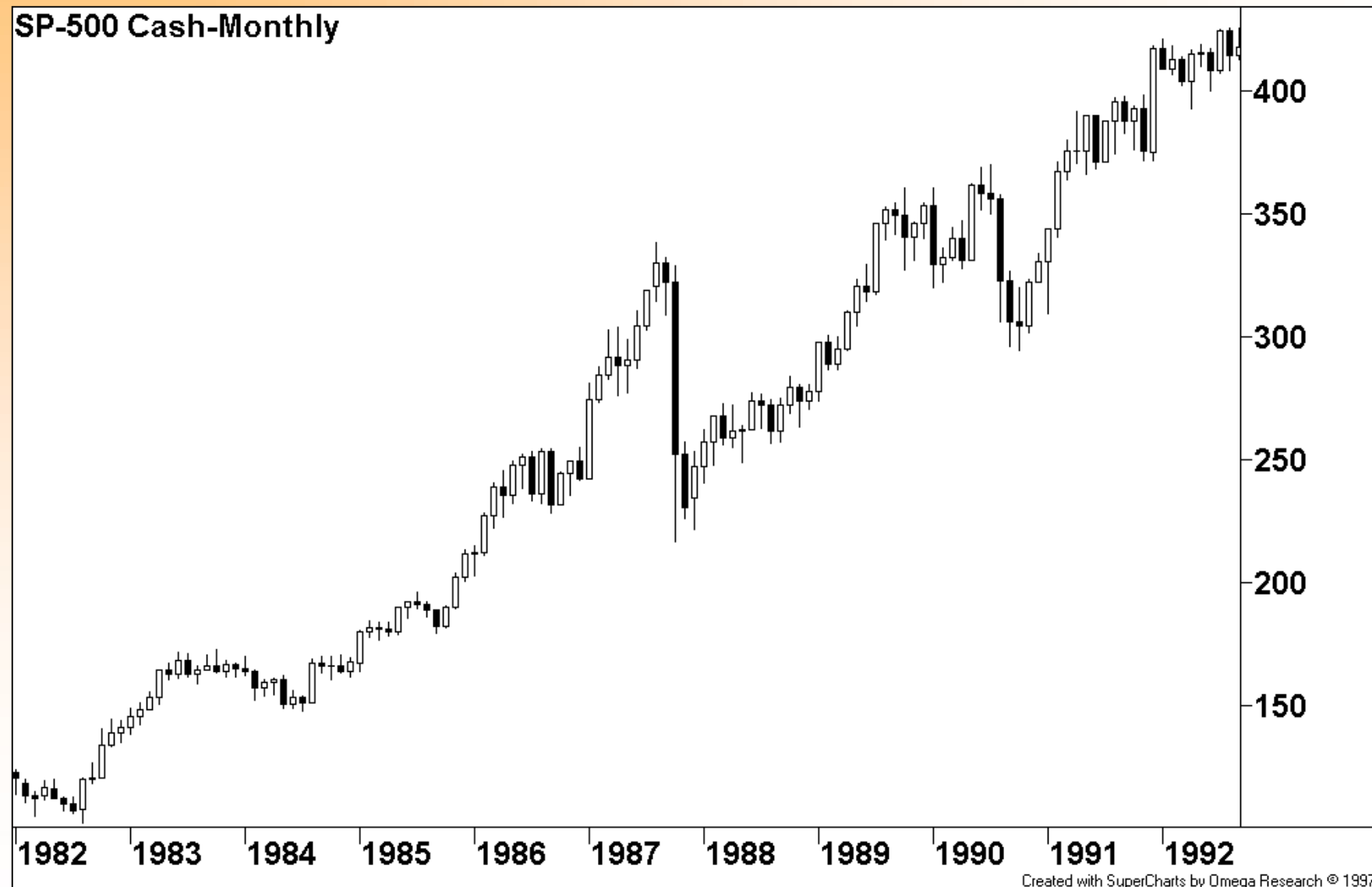
**These periods are driven by human nature
and can't be prevented...although we try**



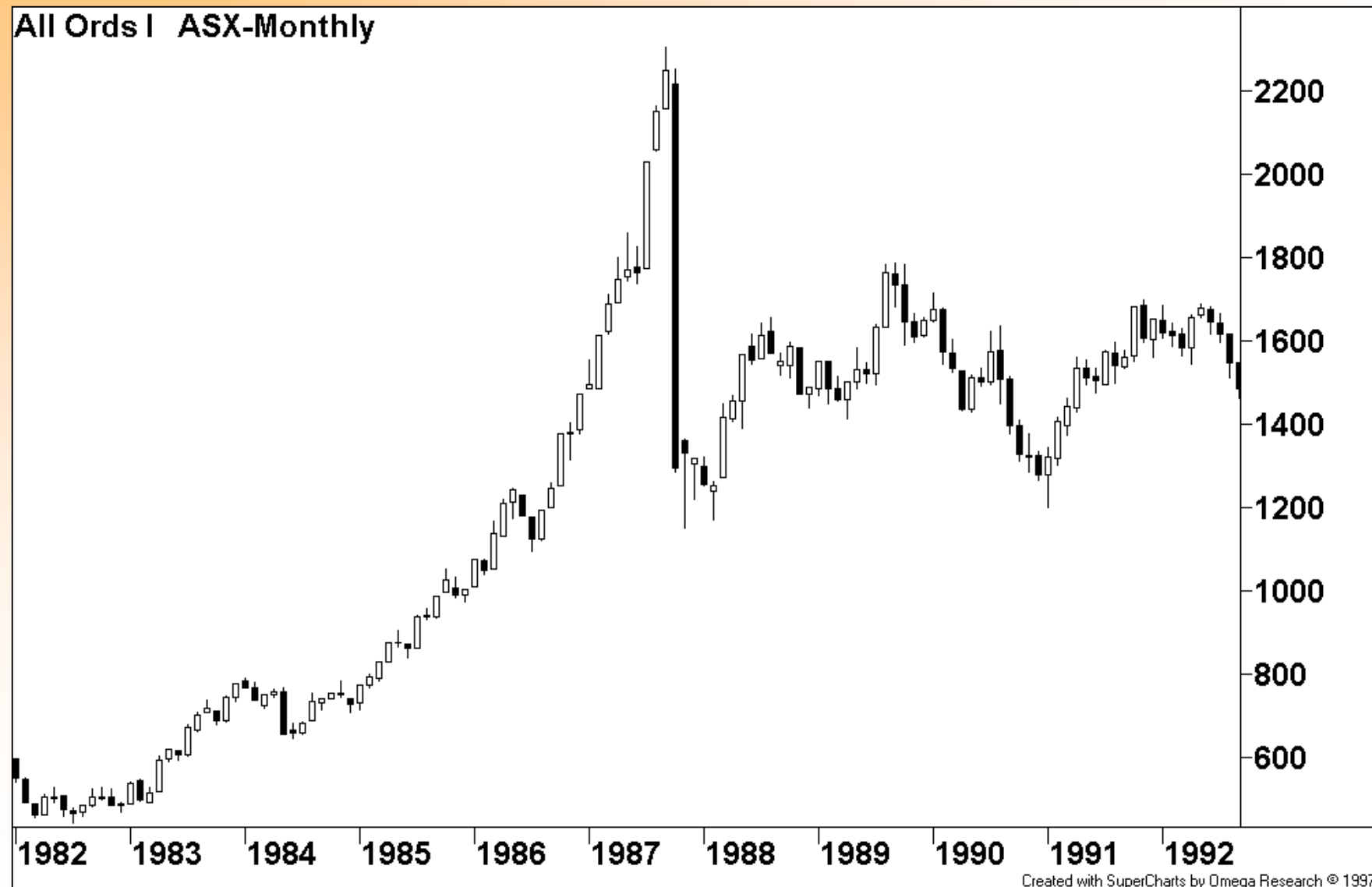
Looking at it across several decades, a boom/bust cycle is a temporary deviation from the long term trend of the economy



If a boom/bust cycle occurs during a stable period in an economy...recovery is quick



The U.S. was moving away from economic strife while we were moving towards it...



Ronald Reagan & Paul Volcker



Bob Hawke & Paul Keating



**Boom and bust cycles in capital markets
don't cause economic collapse or failures**



**But they often trigger economic collapse,
which can then lead to political upheaval**

**If an economy is growing, the associated
Stockmarket will rise...in a linear pattern**



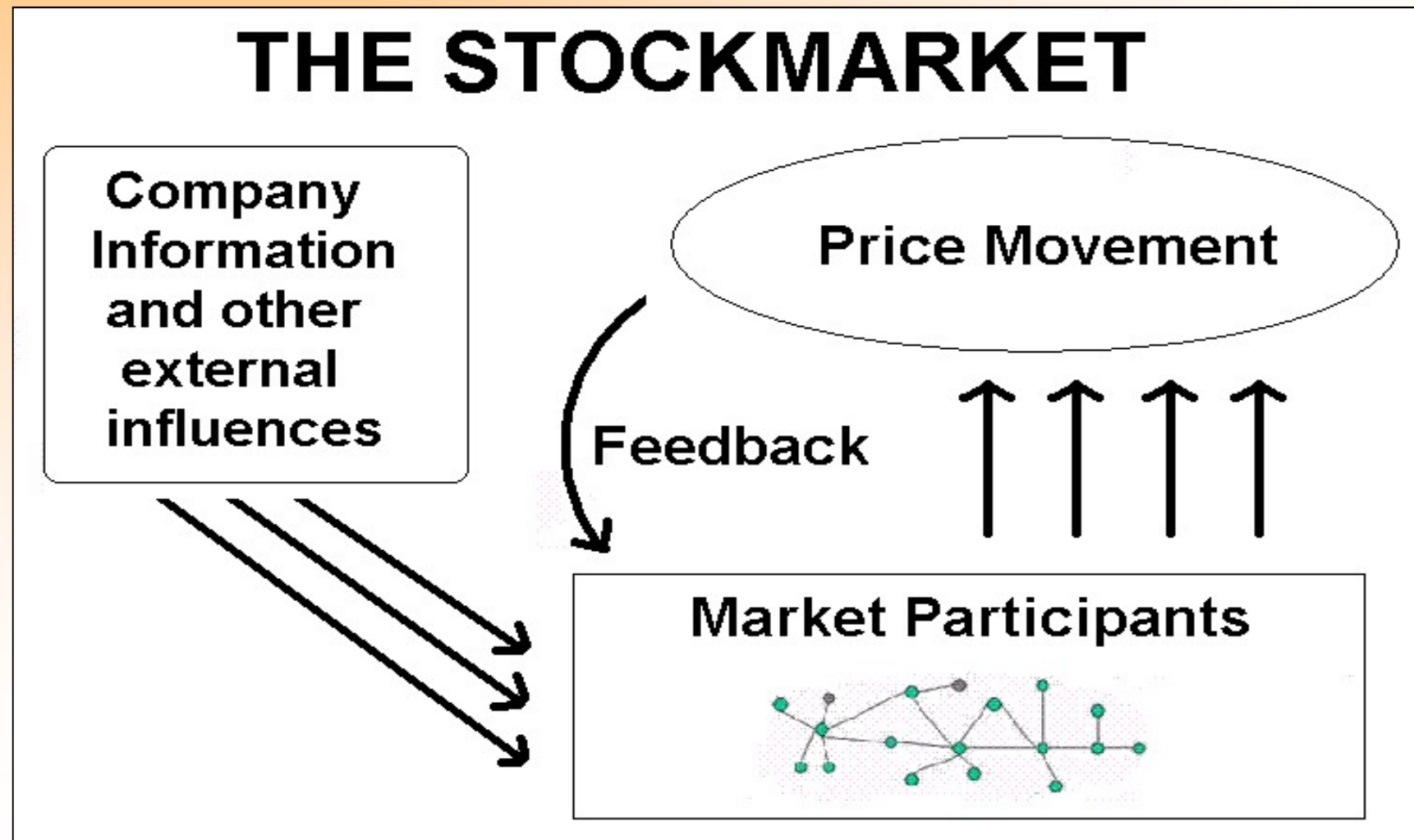
But if investors get too enthusiastic then the pattern becomes unstable & expands



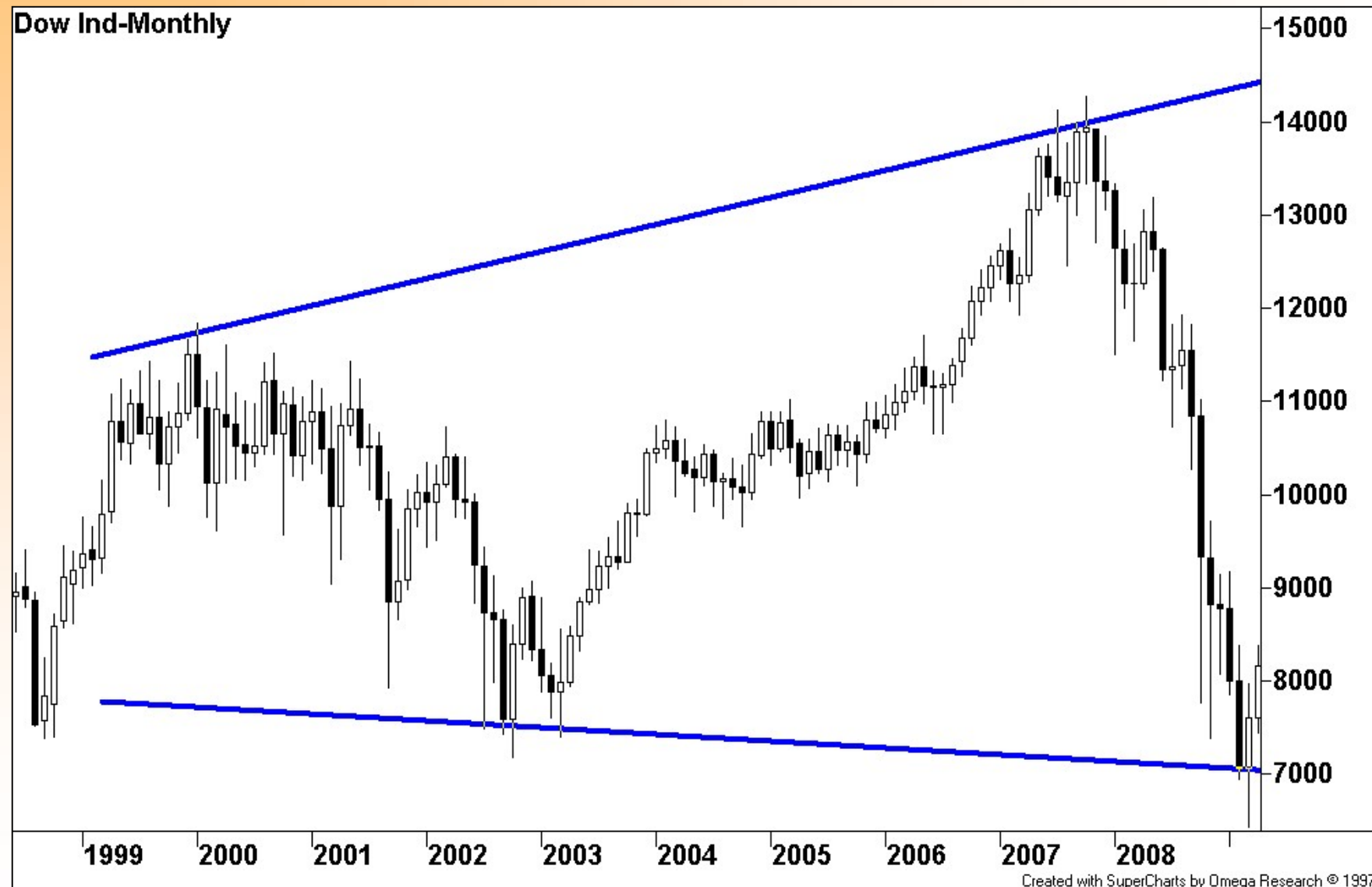
And if it really gets ahead of itself, it rises exponentially and will inevitably crash



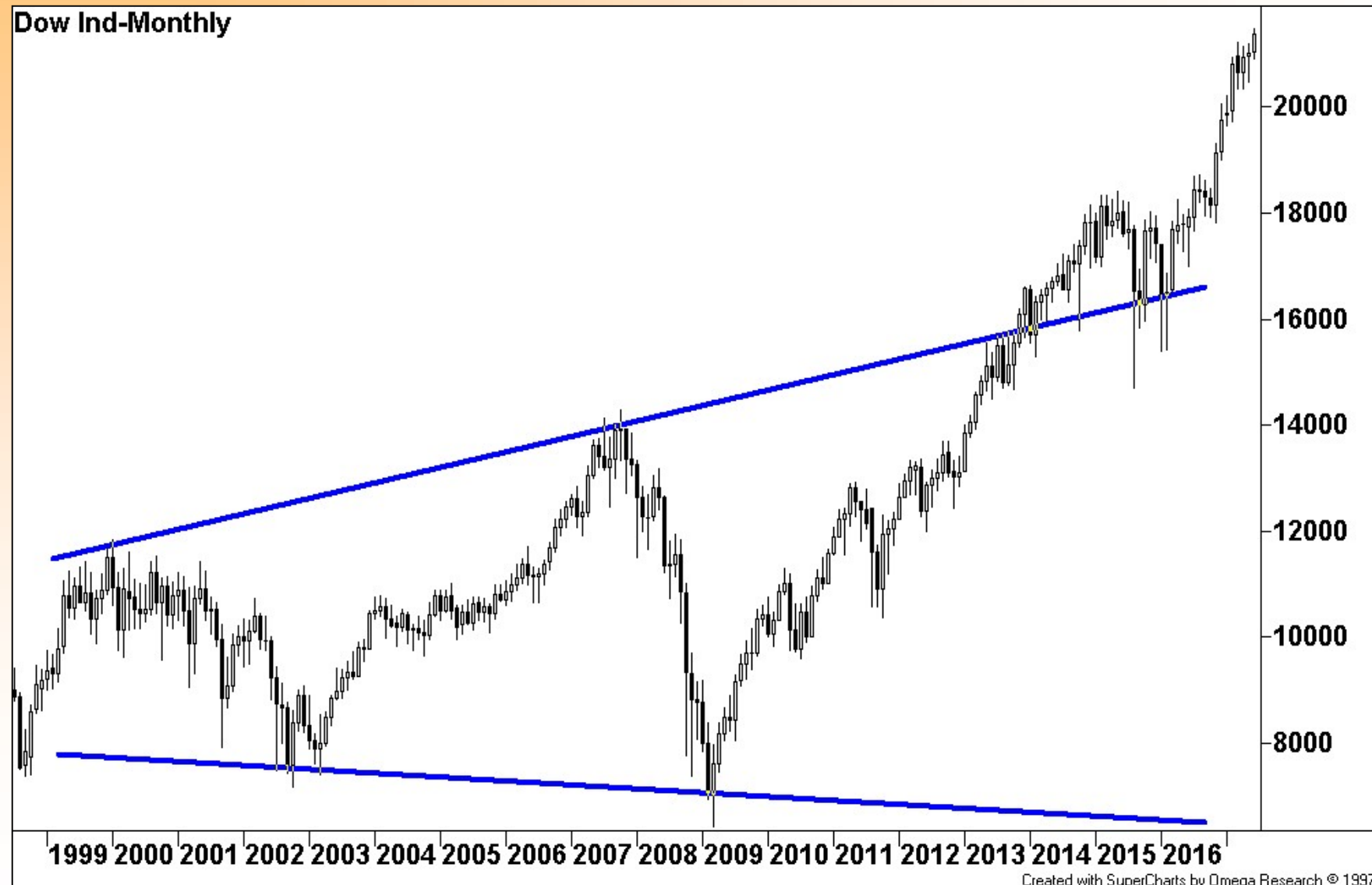
The two forces that drive share prices slowly move away from rational thinking in favour of accelerating price feedback



And markets don't have to actually crash for a cycle to be called a 'boom/bust' cycle



So where are the world's number one and number two stockmarkets at right now?



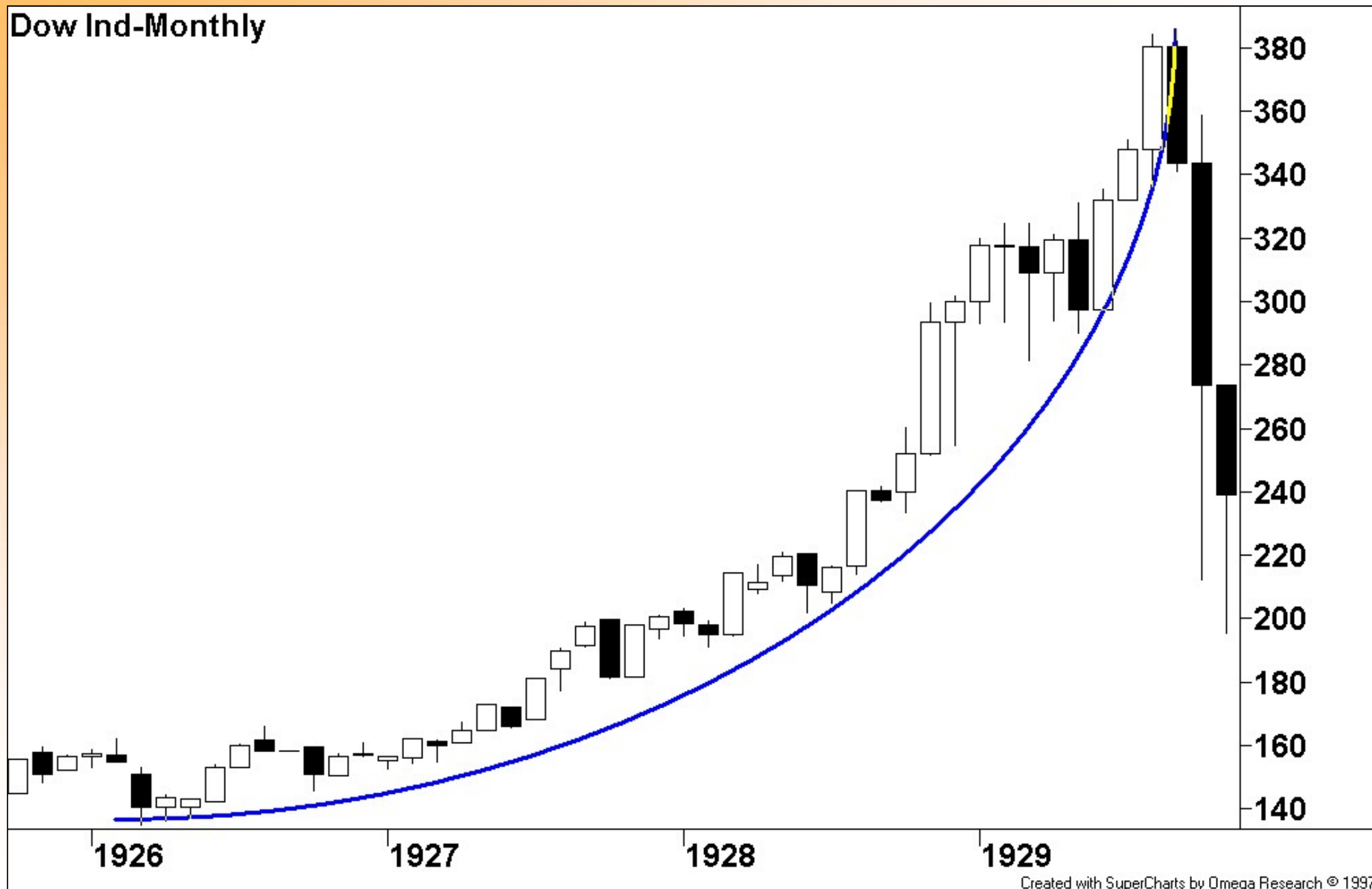
They are testing the limits of rational thinking...and rational economic policy



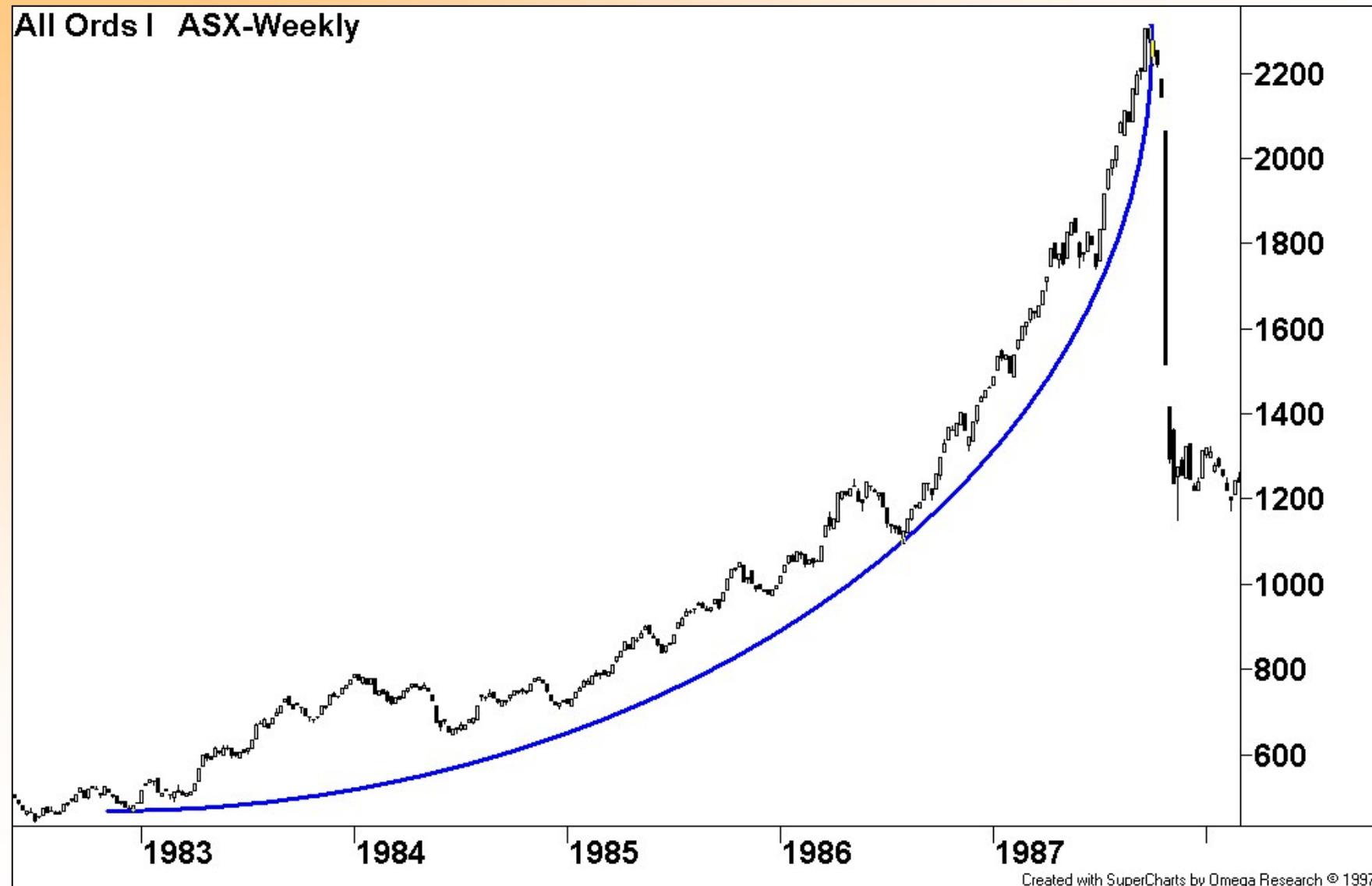
Stockmarkets actually fail upwards - they abandon rational thinking and accelerate



Dow Ind-Monthly



So if they become exponential, there is a very high probability they will crash



**When they crash - its scary & causes panic
- there is a broad loss of wealth - but most
important...it shock tests the economy!**



The 1929 crash triggered the depression of the 1930s because the economy was fragile

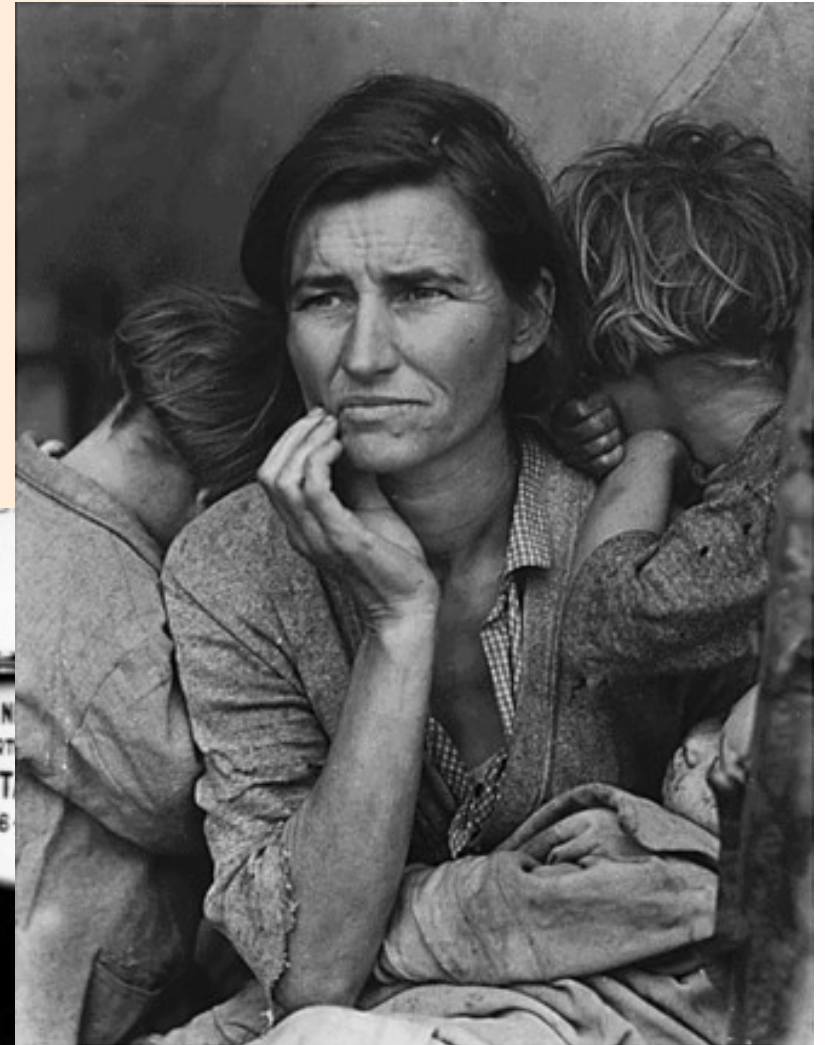




**Peace time industrialization - technology boom
credit driven consumerism & speculation - tax
cuts under Coolidge to encourage privatisation**



But then all the credit and leverage applied in the 1920s went into reverse in the 1930s

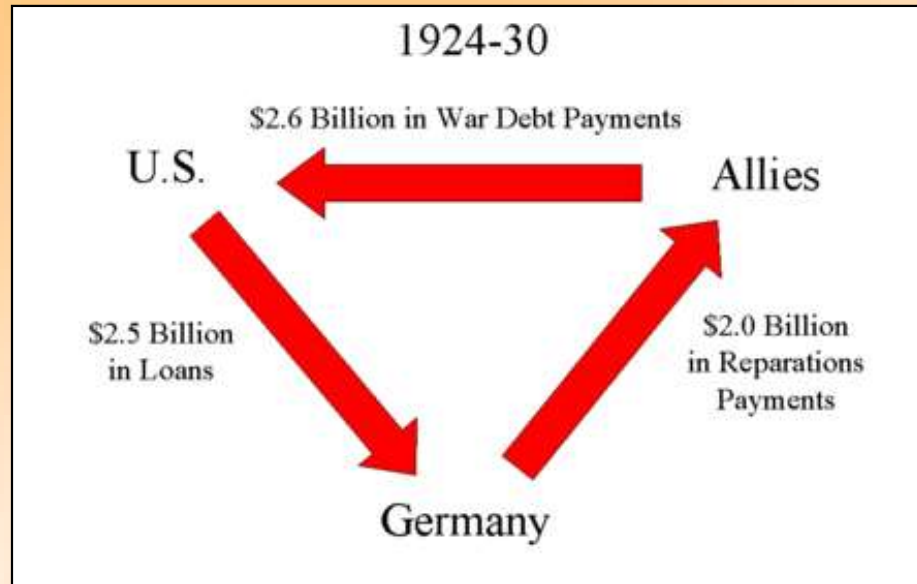


The depression was a deflationary period where President Roosevelt engineered quantitative easing under a gold standard

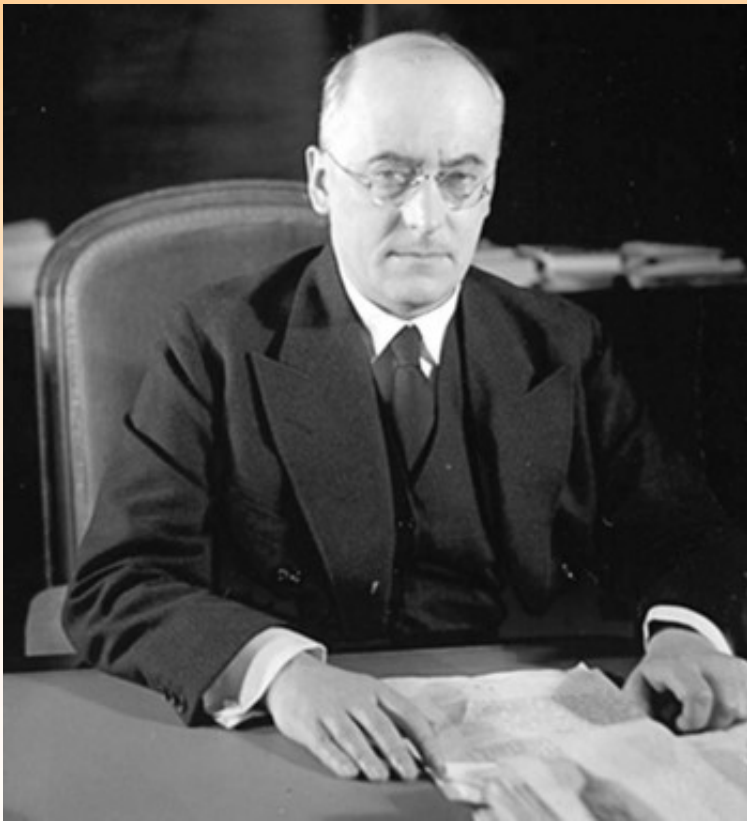


Does any of this sound familiar?

Anyway from 1924 to 1929 Germany was rebuilding itself using American loans



But these loans were called in from 1929 and Chancellor Bruning responded by increasing taxes & 'balancing the budget'



Of course, this triggered a depression

**Bruning resigned his cabinet in May 1932
and Hitler is made Chancellor from 1933**



**Hitler stops reparation payments, begins
major public works and builds his army**

He was a radical - jailed in the 1920s for an attempted coup in 1923 and he denounced Germany's responsibility for World War I



Understanding cause and effect...

Stockmarket booms start out as a valid reflection of a well performing economy

But they often overheat, ending in a bust

Busts will test the underlying economy

And if the economy fails then it will often lead to policy & political change

And typically it will be away from the establishment...whatever the alternative



So is the U.S. economy sound? Are the majority of Americans happy? If so then why did they vote out the establishment?

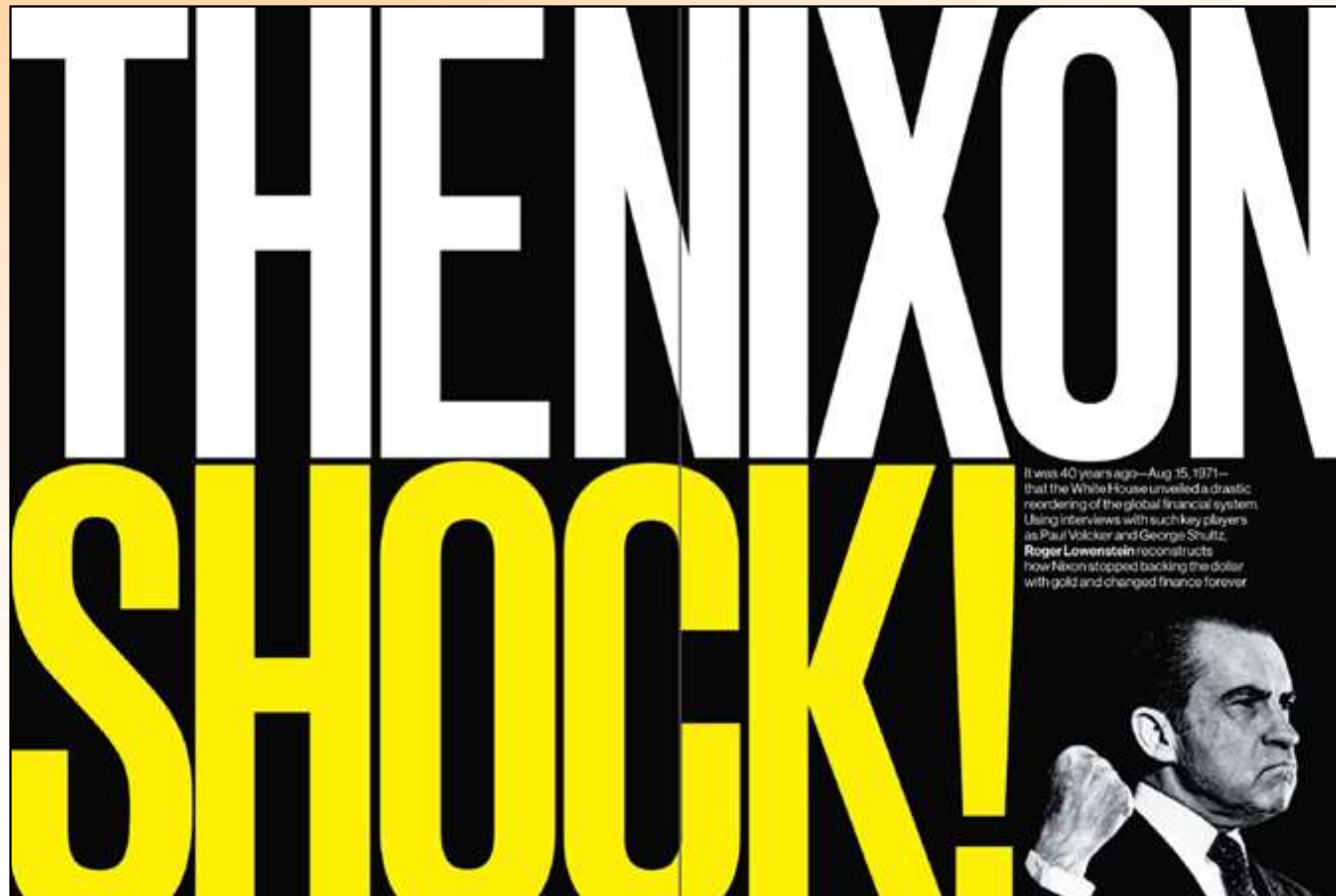


Maybe we should take a closer look...

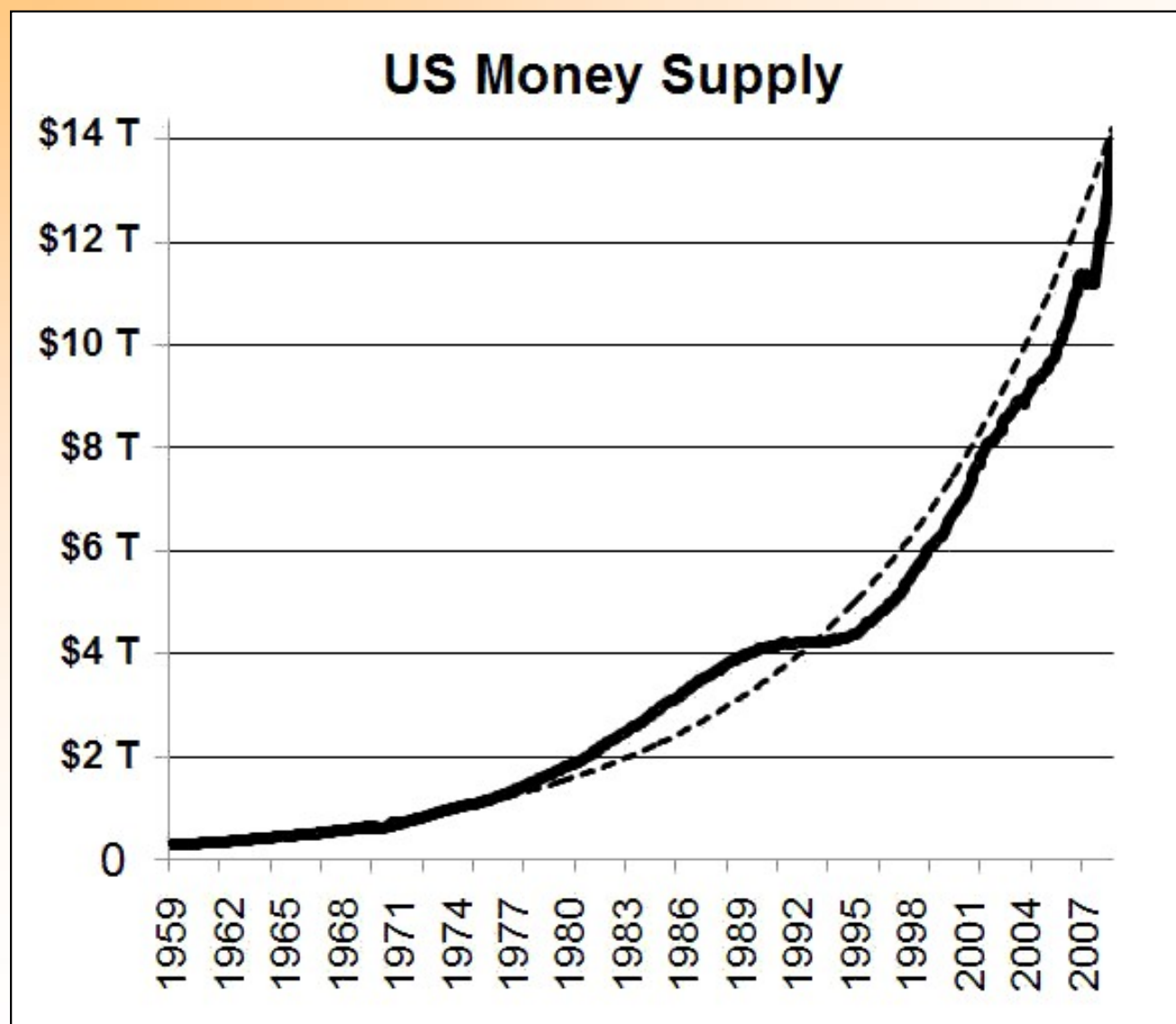
The world operated under the Bretton Woods system from WWII, but in the '60s LBJ printed a lot of money to pay for the Vietnam war and his new social programs



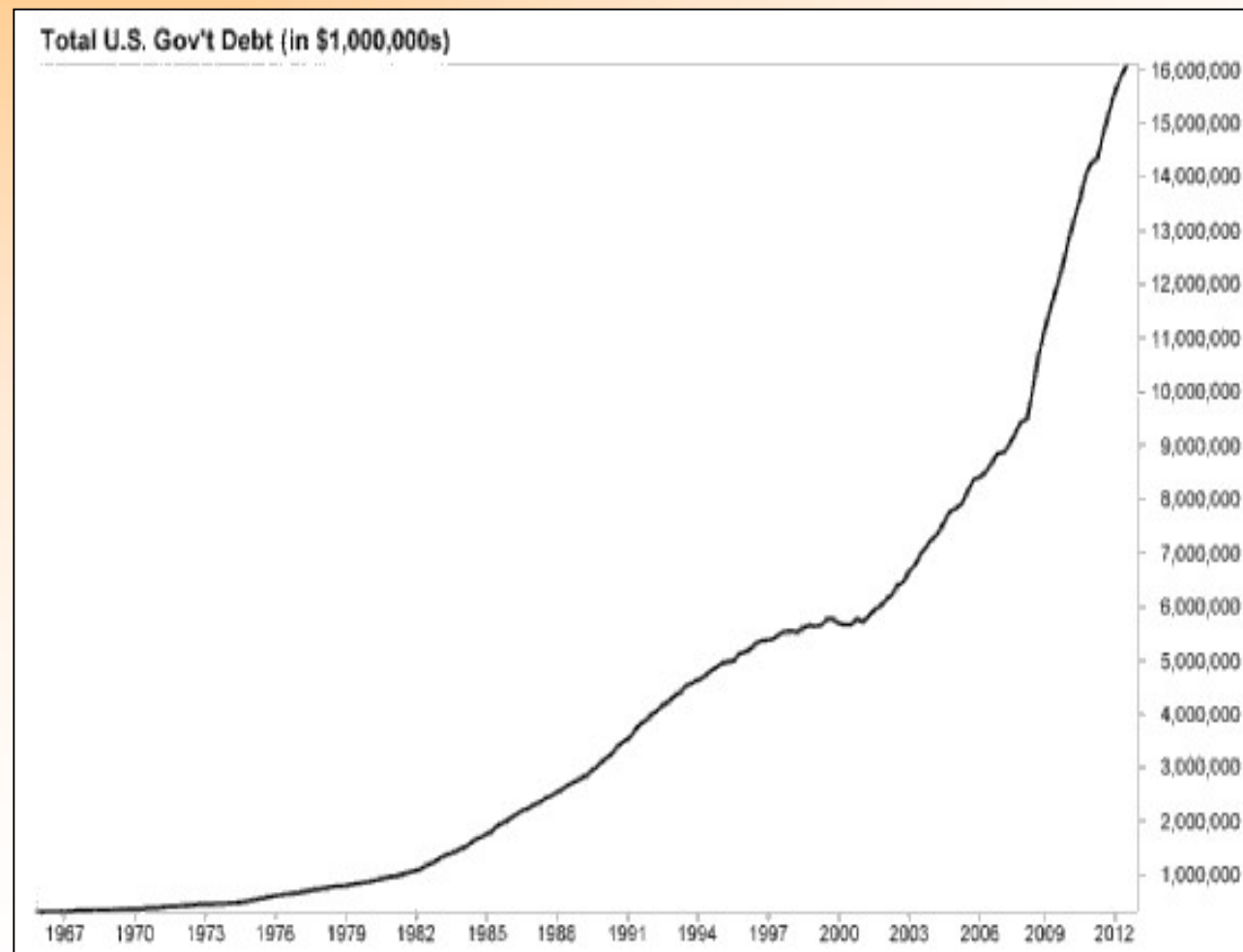
So to avoid running out of gold, Nixon announced that America was no longer on the gold standard in 1971 – from this point the U.S. dollar was a fiat currency



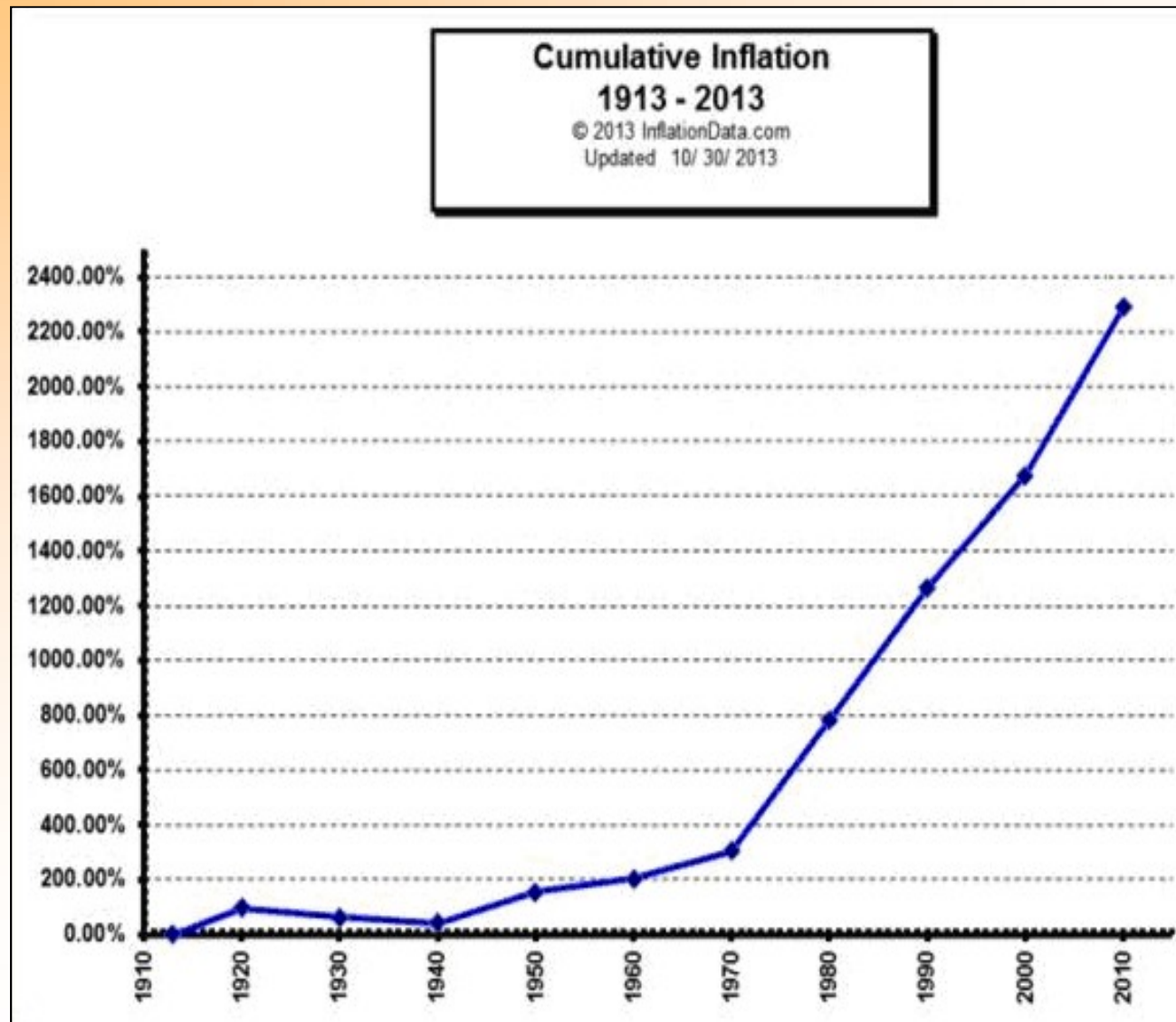
**And so the U.S. Federal Reserve is now
free to print as much money as it likes**



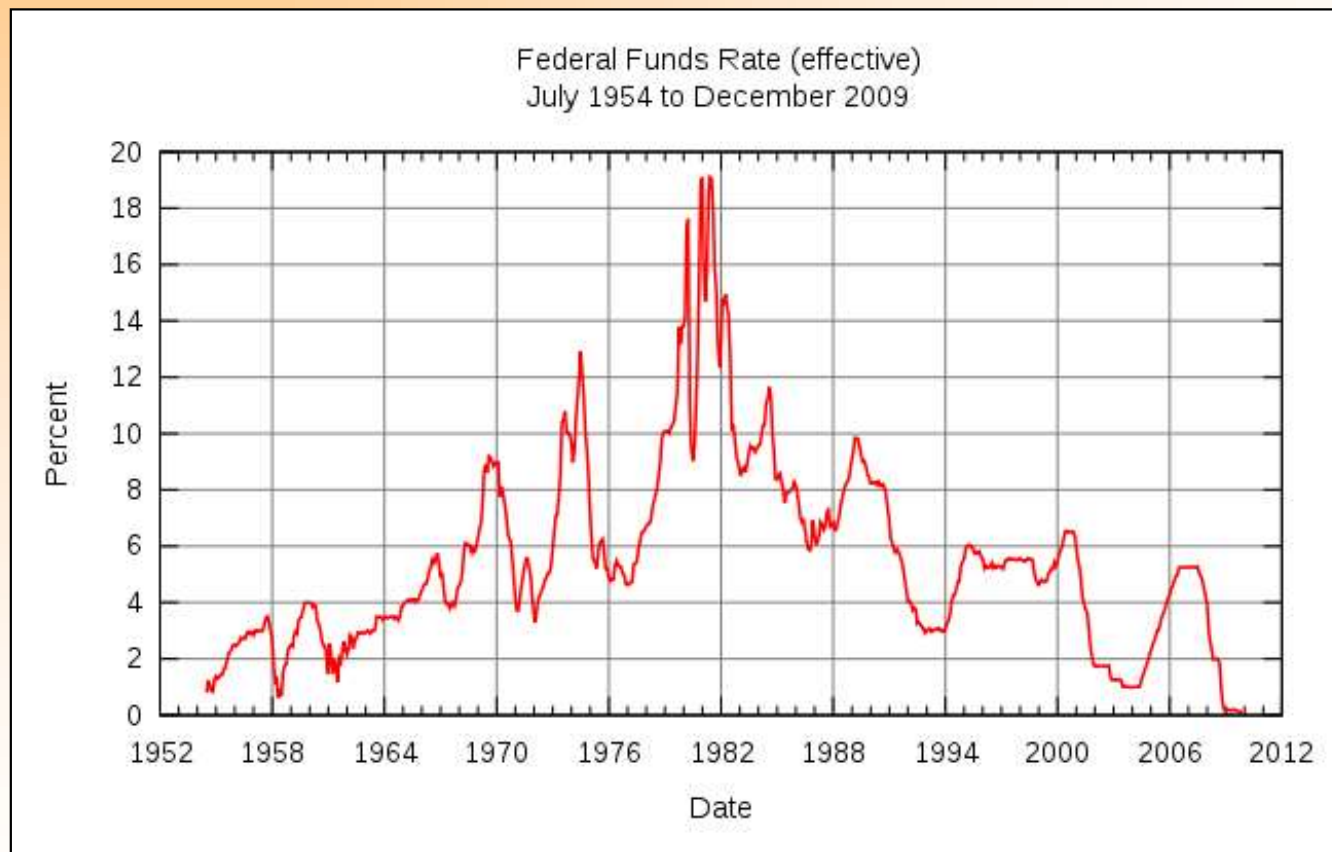
And as the Federal Reserve is the U.S. Government's lender of last resort, it has been free to borrow as much as it likes



The expansion of the money supply has devastated the U.S. dollar's value...



But when inflation finally hits the global currency, they can't use the same fix as they did last time - raising interest rates



Because this time they're in a QE trap!

**50 years of run away political spending
in the western world has been fuelled
by Keynesian economics gone mad**



**We now have asset bubbles worldwide,
propelled by credit driven consumerism
and speculation - thanks to the Internet**



So how do you think the global economy will fare when the current boom ends?



What do you think will happen to the local Stockmarket? How far is it likely to fall?



What do you think will happen to the local Real Estate market? How far will it fall?



What financial product isn't regulated by ASIC? What can you leverage in Super?

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