



**FINANCIAL SYNERGIES**  
**ASSET MANAGEMENT, INC.**

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December 16, 2009

Dear Client,

The year is coming to a close and many of us say good riddance to '08-'09, at least as far as the economy is concerned. But, we have averted disaster and are on the road to recovery. When you are in the middle of a crisis it is sometimes difficult to analyze the situation rationally - especially when being bombarded by a hysterical national media. What we have been through over the last two years is traumatic, but now it is important to take a step back and look at the situation in its historical context.

When the stock market took a tumble last year one of the familiar themes in the media was to compare what was happening in 2008 to The Great Depression of the 1930s. I understand wanting to have a basis for comparison, but using The Great Depression as that basis just isn't justifiable and was unnecessarily alarming. I want to focus on three key economic factors to compare and contrast the two eras: the stock market, gross domestic product (GDP), and unemployment.

The stock market crash during The Great Depression began in October of 1929 and continued through the end of 1932. Our most recent decline began in late 2007. Below is a comparison of the year-by-year stock market returns as represented by the Dow Jones Industrial Average.<sup>1,2</sup>

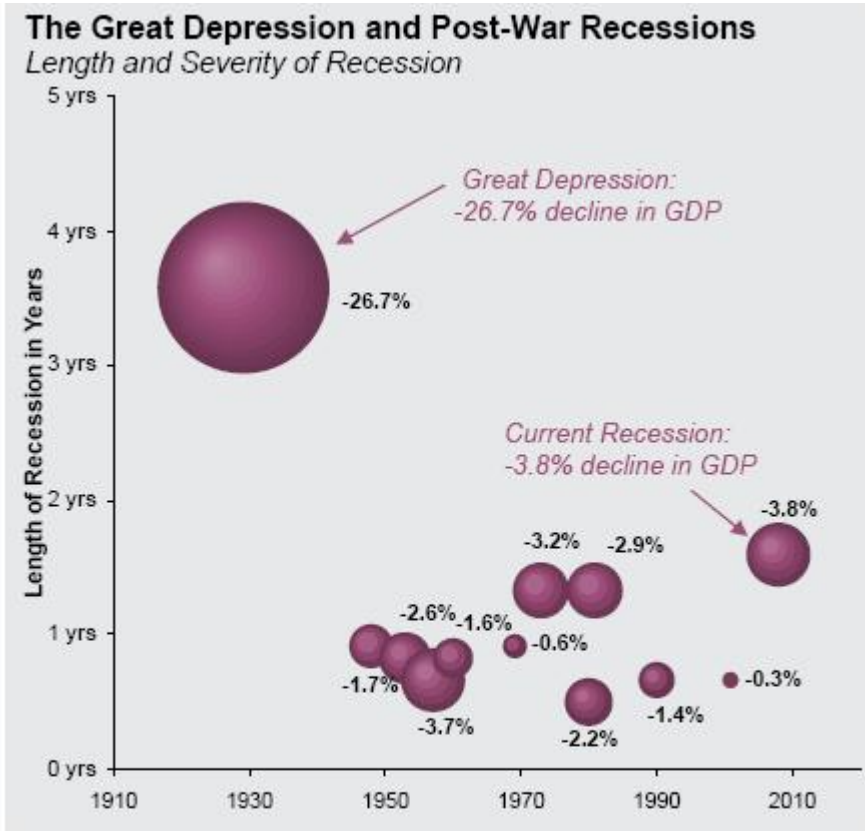
<u>Great Depression</u>		<u>Recent Downturn</u>	
1929	<b>-17.17</b>	2007	6.43
1930	<b>-33.76</b>	2008	<b>-33.84</b>
1931	<b>-52.67</b>	2009	19.09**
1932	<b>-23.11</b>	2010	??

\*\*returns through 12/15/2009

From peak to trough (1929-1932) the Dow Jones lost almost 90% of its value. There were four consecutive years of disastrous returns. During our most recent downturn the Dow Jones lost more than 50% of its value from its peak in October 2007 to its trough in March 2009. However, if we include the most recent returns, the Dow Jones is down a little over 26% from its peak in October 2007 through December 15, 2009.<sup>3</sup> As bad as things got, they would have to get a lot worse to be comparable to The Great Depression. Below is a line graph<sup>4</sup> that illustrates an amazing point - *the Dow Jones would not reach a value higher than its 1929 peak until nearly a quarter of a century later in November of 1954.*



The second factor to study is gross domestic product (GDP). GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It basically measures the country's economic output. Below is a chart<sup>5</sup> that illustrates the length and severity of the decline in GDP during The Great Depression and Post-War Recessions.



Source: NBER, BEA, J.P. Morgan Asset Management.

Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data. Data are as of 9/30/09.

Of course, The Great Depression "bubble" dwarfs all of the other recessions in terms of length and severity. The decline in GDP from 1929-1933 was -26.7%! The decline in GDP during this most recent recession (as of 9/30/09) was just -3.8%. According to the most recent economic survey, conducted by the Wall Street Journal, the forecast for all of 2009 is a decline of just -0.4%. *And the forecast for all of 2010 is growth in GDP of 3.0%*. Most of the economic data for 2009 is in, with a surprisingly strong third quarter of 2.8% growth in GDP.<sup>6</sup> Of course the 2010 growth in GDP is just an estimate. However, if the forecast is even in the ballpark, it will prove to be a real recovery.

The final variable I want to compare between the two periods is the rate of unemployment, and this is probably the most telling statistic. The definition of "unemployed" according to the U.S. Department of Labor is: anyone that does not have a job, has actively looked for work in the prior 4 weeks, and is currently available for work. The current unemployment rate is 10%, a decrease from the previous rate of 10.2%.<sup>7</sup> This data certainly suggests a move in the right direction, but most economists think the unemployment rate will remain somewhat elevated for at least another year. Now, here is the whopper - *the unemployment rate during The Great Depression peaked in 1933 at almost 25% and did not drop below 10% until 1941!*<sup>8</sup> You've heard the term, "standing in the bread line." That was reality during The Great Depression.

In summary, the purpose of this article is not to diminish the recession we have just experienced. It is certainly the most devastating economic downturn that many of us will face in our lifetime. We are not out of the woods yet and our economy faces many hurdles, but we will get through this. The road ahead will no doubt be a bumpy one, but it just hasn't been comparable to The Great Depression. We live in the greatest country in the world with the most sophisticated economy, and we will all realize that again soon.

Sincerely,

Mike Minter, CFP<sup>®</sup>, CFS  
Financial Synergies Asset Management, Inc.



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## Important Disclosures

1)Dow Jones Industrial Average is an unmanaged price weighted index of 30 of the largest, most widely held stocks traded on the NYSE. The index represents principal only and does not include the effect of reinvestments. The index is the sum of the current market price of the 30 stocks divided by a number that has been adjusted to take into account stock splits and changes in stock composition.

2)Source of returns: Thomson Reuters, Inc. InvestmentViewTM

3)Source of returns: Stockcharts.com

4)Dow Jones & Co., symonsez.wordpress.com

5)JP Morgan Asset Management Guide to the Markets Q4 2009, The National Bureau of Economic Research, Bureau of Economic Analysis

6)Economic Forecasting Survey: December 2009, The Wall Street Journal, wsj.com, Bureau of Economic Analysis

7)U.S. Department of Labor

8)U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957 ([Washington, D.C.](#), 1960), pg. 70