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Mark Twain once wrote *“history doesn’t repeat itself, but it often rhymes.”* Let’s hope he’s wrong.

On September 18 2024, the Fed cut their funds rate by 0.5%, from 5.25% - 5.5% to 4.75% - 5%. The market was pleasantly surprised at the Fed’s largesse. Although the bond market signaled a 0.5% cut was more likely than a 0.25% cut, the former was welcomed with ~1.7% jump in the S&P-500 the following day.

What’s not to like? The market sees the Fed as once again saving the day, by boosting asset prices and avoiding a recession. Or not.

Turns out that the Fed made a similar move exactly 17 years ago. On September 18, 2007 the Fed cut their funds rate by 0.5% to 4.75%. The market liked it even more, with the S&P-500 rising almost 3% on the day of the cut. And in fact, it went on to rise another ~3% over the next 15 trading days.

Then it stopped going up. A recession began two months later in December of 2007, lasting 18 months, and Lehman would collapse less than a year later, in what was then the largest U.S. bankruptcy ever.

Despite further aggressive rate cuts – moves of 0.25%, 0.25%, 0.75%, 0.5%, 0.75%, 0.25%, 0.5%, 0.5% and 1% - the economy couldn’t avoid a recession, and stock prices continued to fall.

Between that peak in the S&P-500 on October 9, 2007 and the ultimate bottom on March 9, 2009,

investors suffered through a loss of ~57%. Just for context, if a \$500,000 portfolio declined 57% it would be worth \$215,000. If a \$1,000,000 declined 57% it would be worth \$430,000.

Once again, let’s hope Mr. Twain was wrong.

To be fair, conditions during the Great Financial Crisis were extreme, and fortunately extreme events are by definition, rare. But rare does not mean impossible.

There have been 22 bear markets in the last century, for all kinds of reasons. Investors who dismiss the possibility because we don’t currently have an abundance of subprime mortgages, or profitless internet companies, could wind up paying a steep price.

In a classic misstep, Bear Stearns chief economist, David Malpass wrote a Wall Street Journal op-ed “Don’t Panic About the Credit Market” in August 2007, after a 2 month decline in stock prices.

“Unlike the 1998 seizure in credit markets, to which many are now drawing comparisons, reservoirs of global liquidity are full to overflowing, not empty as they were that year,” he wrote. “The deep 1997-1998 Asian crisis has been replaced with an all-cylinder boom.”

Despite five subsequent Fed rate cuts, his employer was among the first, high profile casualties of the credit meltdown.

In fact, even two months into that rate cutting

cycle, when the mood had already darkened (*and in fact the recession had already begun, though no one knew yet*), only 1/3 of the 54 economists surveyed by the Wall Street Journal thought a recession likely in the following 12 months.

What does all of this tell us? Is a recession and bear market a certainty? Far from it.

However, it should drive home the point that the chairman of the Fed doesn't have a magic wand he can waive to levitate the economy or stock market, should they already be heading for trouble.

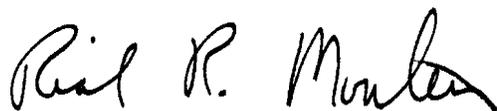
Goldman Sachs strategist David Kostin noted that *"the trajectory of growth is a more important driver for stocks than the speed of rate cuts."*

His research indicates that if the economy was already heading into a recession before the first rate cut, the median path of the S&P-500 is to lose ~ 14% over the following 12 months. If the economy isn't already heading into a recession before the first rate cut, the median path flips to gaining ~14% over the following 12 months.

At first blush, arguments that we are heading into a recession are not overwhelming, and without a recession it would be unusual for the stock market to lose a third or more of its value.

But not overwhelming does not mean non-existent. Arguments weren't overwhelming in September 2007 either. Yet we weren't just heading into a recession. We were heading into the worst

Yours truly,



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recession since the Great Depression.

Unemployment, as a stand-alone number, is not particularly high. But it has increased from the cycle low by an amount that historically has signaled recessions.

Consumer sentiment improved, but then dropped back again to levels normally associated with recessions.

Small business confidence is at levels normally associated with some of the worst recessions.

The 2-year/10-year and 3-month/10-year yield curves have never been inverted this long. Historically that has always signaled recessions, and likely a deeper recession than not. (*The 2/10 has now uninverted, which again happens before recessions.*)

And as all of this is happening, stocks have rarely been this expensive, concentrated or dependent on a single theme such as Artificial Intelligence. Meanwhile government debt around the world has never been this high, making a coordinated response to an economic downturn much trickier.

Dorothy, we're not in Kansas any more.

What is your defensive plan, just in case?

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Rate cutting has begun, will history repeat itself?

Weekly Radio Show Saturday Morning:

8:00 AM KXLY 920 AM
Spokane and Area

9:30 AM KFLD 870 AM
Tri-Cities and Area

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SPOKANE

Hampton Inn—Valley
Breakfast
16418 E. Indiana —Spokane
Oct. 23rd @ 9:30 AM

TRI-CITIES

Hampton Inn
Breakfast
486 Bradley Blvd—Richland
Oct. 30th @ 11:00 AM

- ◇ How employing and consistently following a defensive system could help you to a better retirement.
- ◇ The “Widow’s Tax” could be a major drain on the survivor’s spendable income!
- ◇ What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- ◇ Why Buy and Hold Investing was right for the 80’s and 90’s yet very wrong for today.
- ◇ Will inflation eat up your assets?
- ◇ How to potentially decrease taxes on your hard earned Social Security Income
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For those 50 years old and older



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Fed Rate Cuts

Will History Repeat or Just Rhyme?

Spokane

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Details Inside

*No Cost
Seminars for
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