

Where Were You In 1962



#FPW: Financial Planning Wednesday

?David Rockefeller is gonna save us!?

A small one-bedroom apartment was home for mom and me in the 70s. Narrow halls lined by endless rows of blackish-green lead painted front doors appeared as sentinels. Each was equipped with scrubbed brass one-eyed peep holes to keep watchful yet gossiping behind-the-scenes observations over residents, mostly laborers and public servants. It was a lower-middle class concrete & brick pre-WW2 enclave; an unsure little league boy's pitch away from the hardened, dusty arteries of the New York City IND Culver rail line that got Brooklyn closer to the towering metropolis of commerce. Manhattan. Often, on humidity-laden summer dusk, a few of the neighborhood brethren would hang out on the corner of the block closest to a street long piebald by a massive overhead steel frame, permanently pockmarked by deep metal trolley tracks from a period that died 10 decades previous. The support system for elevated rails carried collar-tied and business dressed commuters for miles to their destinations and kept the road in a permanent state of shadow. To blow off steam from baking all day in between mid-rise constructs of architects who couldn't think outside urban boxes, we'd take shade underneath twisted nature strong enough thrive on brackish water, air as thick as tar and the biting odors of burnished metal on metal. We'd

wait to hear the first sign of imminent machinery's roar. The train, like clockwork, was fast approaching. We would take turns testing our juvenile arm strength by throwing crab apples pulled from low limbs of the saddest darkest tree, at speeding trains emblazoned on their first cars with an orange and white siren that seduced train riders to pay attention. Today, a scarlet-red 'F' in electronic format replaces the past, but like slapping new lipstick on an old pig, not much else has changed in that world of urban blight. My paternal grandfather, a janitor by trade who managed to purchase a new car every couple of years (*my favorite was a 1977 two-toned brown and tan Ford Maverick with matching colored leather seats*), own a house and save six figures for retirement (*go figure*), loved to read *The Daily News*. After all, it was/is New York's Picture Newspaper. And at 13, I was a young leader of the cause. A proud overseer of one of the largest Daily News routes in the borough. I commanded the rich jewel of homes along Ocean Parkway, almost the entrance of Brooklyn's Prospect Park and assured customers they would receive their papers, neatly rolled, bound and at their doorsteps by 5am every day. I was a hooked news junkie for as long as I can remember. Like Grampa. Grandma too. That included AM all-news talk from an old RCA handheld that rarely knew the 'off' switch. The iconic station 1010 WINS announcers proclaimed (almost taunted), that in 20 minutes they could bring listeners the world. And they lived up to the promise. One-hundred percent. I think they still do. I'll never forget the words I heard so long ago from the baritone voice syphoned tin-toned from a radio speaker that resembled a dented cheese grater? *David Rockefeller is gonna save us!* When NYC was a jagged gray landscape and covered in the sour soot of skyrocketing crime, tubular, rusted garbage cans of fire, peep shows, rampant looting, compromised cops, blackouts that turned a city into a horror show, a president told New York City to drop dead. Obviously, he didn't understand this once great metropolis had died long before it faced bankruptcy in 1975. In all fairness to the late President Gerald Ford, he didn't use the infamous two words. His speech denying federal assistance was interpreted as such and he never shook the reference. It was David Rockefeller who crafted a private sector plan that prevented the city from completely losing whatever was left that was keeping it together. That's what I remember. When our parents told us someday we could be president, we couldn't care less. We wanted to be David Rockefeller or J. Paul Getty. Men with power who got things done. **Presidents got nothing done.** As David Rockefeller once lamented:

Few people in this country have met as many leaders as I have.

Recently, Mr. Rockefeller passed at 101 years old. I was briefly overwhelmed by nostalgia and those days of growing up in New York. I came across a richly written piece by portfolio manager Eddy Elfenbein for his blog www.crossingwallstreet.com. He captured the essence of who the man, David Rockefeller was, humanity and class revisited, in [Here's Where Rockefeller Was Different](#). David Rockefeller was also the chairman of Chase Manhattan Bank. I'd like to think it was a period when banks cared about customers. Those days are dead and buried. And now Rockefeller is too. Got me thinking about the reason I purchased a pristine copy of Playboy Magazine from September 1962 a couple of years ago. In a crushed cardboard box at the back of a moldy antique store in some non-descript tiny Texas town. One of the cover stories caught my attention. It was an article. No, really. It was. **Penned by J. Paul Getty about the '62 stock market crash. It was less about the origins of the crisis and more of guidance about how savvy investors should pick themselves up and move on.** Mr. Getty was the founder of Getty Oil and in 1957 Fortune Magazine listed him as the *richest living American*. As I read, several themes arose. The main thing about the stock market? Not much really changes. Sure, there's new technology, companies, gadgets, gimmicks - however, the emotional flow throughout Wall Street never changes, it just shifts. Hot to cold and back again. There are several outdated concepts I'll share from the article, too.

So, what can we take heed in '17 from '62?

What can investors learn from Mr. Getty's wisdom and his possible mistakes? **Background:** *1962 is widely considered the birth year of the first flash crash.* The last three days in May 1962 were horrific and conjured up fresh memories of 1929. To put it in perspective, the S&P 500 through June 1962 experienced a decline of a shade less than 28%. May 28 saw the S&P 500 shaved by 23.6%. The flash crash was born. On May 29, 1962, the already pummeled market index was crushed another 5.7% or down 34.95, the second greatest point decline on record at the time. The market break sort of *came out of nowhere* after a strong run up in stock prices through the end of 1961 with the price-to-earnings ratio of the S&P 500 hitting a lofty, then historic 23.7X. There were plenty theories to go around *Market specialists (those with the responsibility of massaging the market as I call it, or making sure orders flow, well, orderly)* asleep at the wheel, a reckoning for stocks of growth, new paradigm companies like Polaroid with a *silly* P/E of 100 in '61 in the face of declining earnings from 1959-1961, an unusual rise in savings bank deposits, overzealous brokers selling stories about companies that will buck an overall declining trend in earnings (because it was different that time), substantial delays in trade executions, Cuban missiles, the unexpected pulverizing of the prices of market stalwarts like AT&T and IBM. The moon in the Seventh House. Jupiter aligned with Mars. Whatever.

A perfect storm.●

From J. Paul Getty, page 141:

As I've said, some stocks were selling for more than 100 times their earnings expectations during the height of the 1960-1962 boom. Now, it would be difficult to expand enough to justify stock prices that were, say, even 50 times the company's per-share earnings. Even assuming that every penny of the company's earnings were paid out in dividends to common-stock holders.?

Where have you heard similar thoughts? How many times?

Fear & greed remain stubbornly timeless.●●

Like classic lines popular in '62 when the real *Mad Men* thrived, fear and greed never lose their style on Wall Street. The ads in September '62 for brands like Ballentine's Scotch Whisky, Hardwick clothes, Van Heusen, and After Six formal wear, all that reflect the tastes of refined gentlemen, masks the fact that inherently the market is comprised of players who convince themselves of stories to justify extreme valuations until catalysts emerge to bust them. We can appear classic on the surface. Underneath, as humans, we're irrational beings driven by primal desires.

Paul railed against the game players, the speculators, the story spinners. He scolded experienced investors who should have been able to read the warning signals loud and clear long before the May 28 break took place.

Easy for him to lament. In hindsight (a false reality), we all can. Would it have mattered if the market didn't get slammed and stir national apprehension, even motivating a halt to economic activity? Probably not. It's usually after a severe market downturn that stock buyers suddenly become regretful, woeful. Like they saw the black cloud coming but rationalized their lack of discipline away. Before that seminal moment, greed is fed, blinded by what pitfall behaviorists deem *Recency Bias*. In 1961, stock performance as represented by the S&P 500 was 26.64%. **There's little doubt that investors, and especially speculators believed the momentum would carry through 1962 even though earnings and macro-economic data were showing clear signs of softening at the second half of 1961.●●**

Watch for emotional pitfalls and dark places.●

Recency Bias is a mental dark spot that misleads investors to believe that current or recent past performance will continue regardless of changing conditions. The foundation of Recency Bias lies in greed. Negative events that destroy this bias spark hindsight which makes it easier for stock purchasers to mollify the emotional impact of portfolio losses.

Paul Getty reflected a serious tone in his words when he wrote of his response to reporters from throughout the world who contacted him after the drop ? ?I said that I felt the stock market was in a much healthier and certainly in a much more realistic position because of the long-needed adjustment of prices. As for what I was doing, the answer was simple. I was buying stocks.?

His words may have gone over like a lead balloon. With mom and pop investors at least. If odd-lot or small investors reflected a drop off in NYSE volume, then the little guys appeared clearly uninterested in the stock market. Odd-lot trading hit a low in November of that year. Mutual fund sales markedly declined from the year before. I choose to believe (perhaps I'm fooling myself with story), that mom & pop eventually returned and bought in to stocks at attractive prices. The S&P 500 closed higher by 22.61% and 16.42% in '63 and '64, respectively. It's at market extremes, near tops (like current conditions) and in the vicinity of lows, smart investors should grow increasingly aware of their emotional standing so that appropriate action may be taken. The action should be counterintuitive to your [?lizard brain?](#) which screams inside you to fight or flee. Your lizard brain will seduce you to run from fear when perhaps you should be seeking to take advantage of it. Hey, I'm not kidding - Greed is easy. Fear is tough on the psyche. It digs into soul. Stirs survival instinct. It's why we hate losses twice as much as we love gains.

Paul's ?advice? obviously turned out to be correct, indeed.●

As a sage of Wall Street Howard Marks, once schooled:

?We need to remember to buy more when attitudes toward the stock market are cool and less when they're heated.? READ: [Deep Thoughts From Howard Marks.](#)

Realize when you make an investment mistake and never let losses hemorrhage.●

I think it's refreshing that J. Paul acknowledges (page 142), that people did indeed lose money when stock prices fell on May 28, 1962. What's different today is many brokers and their big-box financial information feeder streams won't dare admit that people can actually lose wealth in markets. After all, time in the market heals all losses, correct? Before you know it, you're marking off decades to break even on investments as quickly as your kids are downloading music from I-Tunes. There's a great chance, since the year 2000, that the bulk of your personal investment ?returns? are mostly comprised of payroll contributions to retirement accounts backed by strong, consistent savings and debt management habits. Per Greg Morris, a technical market analyst for over 40-years, from his book *?Investing with the Trend: [A Rules-based Approach to Money Management,](#)?* explains that declines (selling) are more emotionally driven so are quicker and abrupt. Amazingly, although you hear the anxious excitement over market highs from financial media, Greg's research clearly outlines that the S&P 500, not counting pullbacks of less than 5%, spends close to 83% of its time back to where it had already been before. **In other words, the stock market spends only 17% of the time making new highs. With less than 5% retracements included, astoundingly the market spends roughly 4% at new highs.●** So, what are financial talking heads and big-box brokerage outlet pundits all squawky about?

It's fine to invest in what you know but beware ?the overs.?●

Paul writes with a sagacious yet matter-of-fact flair; his confidence leaps heavy but nimble from 50 year-plus faded magazine paper (page 89) ? ?I am an oilman. Since the petroleum industry is the one I know best, I bought oil stocks.?

Mr. Getty's climb to the top of the financial big leagues began with risky-turned-lucrative oil ventures mostly those pursued by the company he established. At 23, he made his first million in the summer of 1916. Stock investing wasn't a catalyst for his massive wealth. Oh, it didn't hurt, however, his business ?primed the wealth pump,? so to speak.

Paul was a great student of stock fundamentals. The companies he invested in had to be leaders in their fields, possess strong balance sheets, seasoned management at the helm along with a history of paying dividends. •

None of his thorough analysis mattered if the ?issue prices grew hot due to speculation in a matter of weeks or even days,? as he explains. No doubt, the price level of a stock was crucial to Getty's decision to execute a purchase, (Getty was universally known as a tight-wad). If a price was too high, he waited. He possessed patience and a discipline even the most experienced of investors would die to possess. It's natural to seek to invest in companies and industries we know the most about. Investing in ?what you know? feels comfortable and engenders confident. On occasion, overconfidence (also a cognitive drawback), in our knowledge and extensive experience fosters a false sense of invulnerability. Those who suffer from the overconfidence effect tend to avoid data that contradicts their views or opinions. Wealth overconcentration in a specific industry or single stock ironically fosters complacency when in fact should keep you on your toes more than ever. Complacency and markets are not good bedfellows. Single-stock overconcentration, defined as an investment that comprises 15% or more of your liquid net worth, can make or break you financially. There's little middle ground. Either the stock does well enough to positively change your life, accelerates retirement projections. Or, as I've witnessed often, the overweight wreaks havoc on financial goals as the stock falters or stagnates for a long period. A person of J. Paul's fiscal standing can wait out bear markets and take large positions in energy or any industry, frankly. We are not afforded such a luxury. If a great slice of your net worth is tied up in company stock for example, and the price corrects, precious time to breakeven or move higher from the previous low can run out before you need to liquidate to meet a life benchmark like retirement. Make certain to invest wide, in several different industries and asset classes within a stock allocation.

Think ketchup and oil. Electricity and syringes. Domestic and international. Stocks and bonds. You get the picture. •

Remember: Unlike Mr. Getty who had the ability to make massive, albeit well-studied bets on single industries and easily endure a downturn, you are not afforded a similar luxury. Your life would indeed suffer negative repercussions.

Paul Getty defines seasoned investors as those who do their homework. Who are you?

The tenured investor shared his thoughts about speculators. Openly. He wasn't a fan. **As a matter of fact, he exudes slight disdain as he likens speculators to individuals who make ?risky bets on the weather,? compared to investors who ?confidently bank on the climate.?** He called out the nation's newspapers, coined them ?scare heads,? for bombastic headlines like:

•NATION FEARS NEW 1929 DEBACLE. •

Paul established himself firm as a voice of reason when a nation was stressed over geo-political concerns and now, to top it off, a market collapse which conjured up dark spirits of the market crash which preceded a Great Depression.

There's a thrashing in prose of pundits he deemed as ?crystal-ball gazers,? who glossed over the

market derail as a non-event; others who appeared to take a sadistic delight in prophesying worse things yet to come are not spared harsh sentiments. Like a grandfather who looked to get younger generations in line, Mr. Getty's goal was clearly to efface misinformation. Some things don't change for the better. On occasion, they further deteriorate. Today, there's internet click bait, 'fake' news to tempt eager readers. Oh, how would the words of the maverick Mr. Getty resonate now? Would we bother to read them? Certainly, technological as well as financial innovations like index or passive investing, and robot advisors which place financial well-being on algorithmic auto-drive, have altered the investing landscape; It's still unclear whether these so-called improvements are completely beneficial. Like everything else, change can be a double-edged sword. The cyclical bull market which began like an eternity ago (March 2009), has been steeped in high-octane, unorthodox monetary policies by global central banks. The manipulation of yield curves and short-term interest rates staid at zero or close-to-zero, continues to keep stocks prisoner to the **TINA (THERE IS NO ALTERNATIVE)** investment syndrome. Along with the popular 'legit' financial accounting gimmick where senior management of publicly-traded corporations steer massive capital into common-share buybacks instead of productive capital investment, powerful tailwinds have allowed indexing strategies and auto-pilot financial technology to capture, like broad sails in a gale, the fullest of stock returns inexpensively. The actions taken by central banks especially, obfuscate stock price discovery to a point where to many investors, the market is no longer a place to own shares of great companies for the long haul, but an avenue to rent the overall upward momentum of prices until a computer triggers a suitable exit or reshuffling. So, are we not all speculators now? What kind of homework, the caliber of a J. Paul Getty, is truly required? If you believe the financial industry and the likes of Vanguard, you'd be convinced that stock ownership is easy peasy and passive investments like index funds are 'safe.' **Thanks to fintech or financial technology, as a prospective speculator (see what I did there?), I can answer 5 meaningless questions in 5 seconds about my risk tolerance (whatever that is), open and fund an account in less than a day, and a robo-advisor will set me and forget me in an indexed portfolio because as we've been told, stock prices are on a perpetual rising slope.** My friend Dr. Stephen Aust who believes markets move in cycles (imagine that), pens an informative monthly market cycle report. I rarely miss an issue. For April, his perspective is timely for this writing. In• Robo-advisors are Terminators in Disguise, **Stephen outlines, in sort of J. Paul Getty flair, how inevitably once this bull cycle concludes, the robo-advisor program will morph from financial partner to HAL 9000 the artificial intelligence computer made popular in the novel and subsequent well-known film '2001: A Space Odyssey.'** HAL progresses from ally to foe; conditions go to heck real fast.

And in the fintech world, nobody can hear you scream. Or nobody cares if you do. •

Stephen wrote:

'The next recession or financial crisis will severely damage those investors that have put their trust in these computerized robo-advisors because market conditions change and the computer programs won't; robots aren't intelligent and even when artificial intelligence is created it won't help with investing because so much of investing is irrational. 'Star Trek's Mr. Spock would have lost his shirt in the markets. 'Computer savvy (and often young) investors seek out intuitive tools and this includes robo-advisors, but markets are actually counter-intuitive by nature, so good luck with that.' And these robot advisors will never understand the art of investing.'

As central banks, especially our own Federal Reserve, seek to normalize interest rates, albeit at a sluggish pace, so will momentum strategies fade to fundamental analysis so revered by J. Paul Getty over half a century ago. You see ' stock rental will bend to ownership as cycles change; risk management to minimize investment losses may take a respite when markets are overwhelmed by unprecedented central bank intervention, but then, like that, the wind shifts. Don't misunderstand ?

the robots, the momentum players. They'll always be a part of what Wall Street is and has become. They'll just take a back seat for a cycle, like fundamental investors, those who do their due diligence, are doing today (and have been for 8 years). Once monetary policy loosens its grip on risk assets, price discovery amiss for so long, will ostensibly begin to garner attention.

Valuations will matter once more. Just like the investing perspective from an industrialist long gone, musty lessons rising from acrid pages of a gentleman's magazine wedged deep in a moldy cardboard grave, gain new life. The past is a valuable reflection in humility's mirror. Market history is a timeless, inexpensive gift that keeps on giving. Unwrap it, take it in to remain grounded. Flash crashes happened. They'll occur in the future. What is out of favor will be the cool kid, again. Make sure your portfolio stays alive to witness it all. The highs. And the lows. And embrace what is the clearest truth on Wall Street (and truths are few). This time, this cycle, this moment you invest in, will never truly be different. If you go back far enough.