Stock Market Meltdown - Watching Rome Burn

Both presidential candidates want to crucify SEC Chairman Cox for failing to control our creative financial institutions. But rumor has it that Congress specifically excluded the devilish derivatives from SEC purview. Let's fire the right bunch of "poips" for a change!

Scary markets are brought about by many factors, some normal, and some not so normal. It's often helpful to look backwards before getting too paranoid about the present. The S & L crisis of the early 80s might be an appropriate starting point.

Later that decade, a multi-year rally had its head lopped off by high interest rates, high inflation, and a computer loop. Ten years later, another soaring market was toppled by economic factors. The turn of the century witnessed the bloody demise of the no-value-at-all dot-com illusion.

A profit taking strategy during the rally days was all that was necessary to cash in on "The Crash of '87". In 2000, the route to immunity could be summarized as: "no IPOs, no mutual funds, no dot-coms, no problem".

The common historical (hysterical) thread is clear. Rally begets correction; correction spawns rally. This time around, ironically, conservative investors had no trouble avoiding the derivatives that eventually sunk the markets. But, the products were so "out there", and the regulators so out-flanked, that the unwinding has unglued several investment world icons. This correction is different--- but not in the ways you might think:

The scope of media coverage, analysis, and sensationalism; masses of inexperienced, non-professional, speculators; and the popularity of investment products are new phenomena. Millions of nameless non-credentialed Internet investment experts and financial bloggers add to the pandemonium.

Similarly, the proliferation of passive investment mediums (index funds); regulatory tolerance of speculations of all forms, shapes, and sizes; and the relaxation of the trading safeguards that have protected investors for decades encourage a reckless, gambling approach toward what was once investing. We've seen what conscienceless commodity speculators have accomplished in world markets.

We have experienced a major movement away from plain vanilla stocks and bonds, and have popularized the thrill ride of speculative activities. 401(k) fund selections include short-long funds, currency trading strategies, and commodity futures. IRA investors seek out the most exotic forms of speculation, convinced that, with a Blackberry and a lunch break, they can master the complexities of high finance.

Regulators have allowed funds of hedge funds into small investor portfolios; brokerage firms short shares that don't exist multiple times; the once sacred up-tick rule has been abandoned when shorting itself should be a banned substance; and CDOs make it difficult to determine just who owes money to whom.

Enough? There's more, but you get the idea. Today's problems are much more visible than yesterday's. Today's worries involve bigger numbers. Tomorrow's solutions will undoubtedly bring creative MBAs to discover new financial WMDs. The investment gods are angry. We need to bring back that old time rock and roll, and an investment world content with individual stocks and bonds.

In less complicated times, the difference was in the fixing. Speculators suffered, but safer investment styles were less vulnerable. Let's elect a Congress that will regulate the speculations and allow us to get back to the basic, fundamental, adventure of building and protecting our nest eggs. Think back, just a few cycles ago--- familiar?

The Market was breezing along during the summer of '87, enjoying one of the broadest rallies ever experienced on Wall Street. From the very start, equity prices seemed incapable of going down. The mystical DJIA 2000 barrier was shattered early in the year and upward the market soared.

On through 2100 it rumbled, then 2200, and 2300--- even the comic strip, dartboard approach proved successful, and many subscribed to it. The securities markets were simple, with fewer labyrinthine products, and only the dark cloud of rapidly rising interest rates in an otherwise clear sky. 2400 on the DJIA by July and on it went. No end in sight.

The institutions introduced hundreds of new mutual funds, pumped up their marketing efforts, and pushed the rally skyward--- 2500, 2600, 2700, just incredible. None of the salivating mutual fund unit holders saw it coming; Wall Street didn't care. The Dow topped out at 2722 that August--- about the same number of points involved in a swinging September 2008. Only the names and the products have changed---

The parallels to today's markets are interesting. Value stocks and bonds were moving lower while IPOs and other speculations were bubbling higher. As prices weakened, analysts began to mumble. The economy certainly didn't look like a doom and gloom scenario--- just those pesky interest rates.

And then it hit the fan.

Technology bombed the market when programmed-trading sell signals ran fast and furious down the cables, resetting themselves lower, and lower, and lower--- but the stock being sold actually existed! Wall Street panicked! Inflation fears, higher interest rates, tension in Europe, foreign oil, war in The Middle East, and so on. All of the usual suspects were touted by the media as the culprits that caused "The Crash of '87".

It just doesn't take a whole lot of Wall Street manipulation (or arrogance) to turn speculative greed into investment fear. The wizards had done it again, sucking the franklins from unsuspecting individual investor portfolios, just as they would two cycles later when their dot-coms sealed the fate of another generation of speculators.

Yes, the similarities are striking--- one meltdown to the next. But this time is slightly different. This time the Masters of the Universe were helped by Congress and the SEC to pick our collective pockets, and a few of them have actually, and appropriately, drowned in their own garbage. I'll shed no tears for the fallen giants, but let's all cry out loudly about the problem--- a problem that both Barack and John were a part of.

It's Congress that gets to chastise and create regulations for the bad guys. This year, and in those that follow, let's fire the DC fat cats that caused the problem, and find some regulators with the guts to label speculations as thoroughly as they do medications.

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