



3 Ways the Current Investing Climate Is Like the 1930s

Description

Much of the public discourse surrounding the late 2000s recession characterized it as a kind of “Great Depression Lite.” If the 20s and 30s were the Great Depression, the late 2000s were the Great Recession. If the banks of the 1920s “failed,” the banks of the 2000s were put on life support. If the late 20s and 30s were characterized by massive unemployment, then the 2000s featured “large-scale unemployment.”

It's no surprise then that some would describe the current economy as similar to the late 1930s. Like in that decade, we're living in the aftermath of a major market collapse and seeing many of the same aftereffects. Bridgewater founder Ray Dalio is a major proponent of the theory that today's economy and investing climate is similar to the 30s. The following are three points that he brings up to make the case.

Increased money supply

In the 1920s, the federal reserve resorted to printing money to stimulate the economy. In the late 2000s, the exact same thing happened in the form of quantitative easing. The end result was increased liquidity that eventually got the markets back on their feet. In the 30s, the increased money supply did not cause inflation; in fact, for much of that decade, prices fell. However, now as then, the increased money supply came along with another big concern.

Massive debt

Now, as in the 30s, debt is ballooning massively — in Canada as well as the U.S.

Under President Trump, U.S. public debt has increased by \$2 trillion, reaching about \$67,000 per citizen. Trudeau is not far behind, having reigned over two consecutive years of historic deficits. This is another parallel to the late 1930s, when America's debt-to-GDP ratio began climbing, largely thanks to preparations for World War II.

Government asset buying

A final commonality between the post-Great Recession era and the 1930s is an increase in government ownership of assets. In the 30s, government bought up monetizable bank instruments to prevent economic turmoil from spinning out of control and to contain the effects of massive insolvency.

In the late 2000s and early 2010s, the same thing happened when the U.S. government bailed out banks and the fed started [quantitative easing](#) to buy up government bonds. In the end, a larger crisis was averted, but questions remain as to whether we're not still on life support.

Foolish takeaway

As mentioned earlier, Ray Dalio of Bridgewater is the main proponent of the "2010s-are-the-new-1930s" theory. If you think his theory makes sense, one strategy to stay afloat in these times would be to copy his portfolio.

Currently, Dalio's biggest TSX stock holding is **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)). Although this bank has massive exposure to the struggling housing market, it's financially sound and [grew earnings faster](#) than most of its competitors in the final quarter of 2018. It's certainly no ten-bagger but may be a safe pick for today's investing climate.

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