Dispelling the Biggest Myth About the 1929 Stock Market Crash

Description

With market volatility reaching unprecedented levels, investors are becoming more interested in the history of stock market crashes. Google search trends reveal a 270% increase in search interest for “1929 stock market crash” since February 16.

“1987 stock market crash” is seeing an even more pronounced spike in interest, with searches up 2,400%. Clearly, investors are concerned about what’s going on: their search activity makes that abundantly clear.

If the current contagion spills over into a true recession, we may indeed see a prolonged period of lower stock prices. However, it’s important to contextualize what’s actually happening.

There are many myths about history’s worst stock market crashes that people still believe, despite widely available information to the contrary. If investors act on these misconceptions, they stand to lose considerable sums of money. The following is perhaps the most dangerous misconception you need to get out of your head right now.

Myth: “It took investors 25 years to recover after 1929”

One of the most commonly repeated stock market myths is that it took investors 25 years to recover after the 1929 crash. Technically, it did take 25 years after the crash for the **Dow Jones** to revert to its 1929 highs.

However, there’s another factor at play that this statistic ignores. Once you add this into the equation, the picture gets a lot less ugly.

Reality: that doesn’t include dividends

When you factor in dividends, it took much less than 25 years for investors to make back their moneyin 1929. In the aftermath of the 1929 crash, dividend yields climbed as high as 14%.

If you add those colossal dividends into the equation and assume reinvestment, investors recovered much quicker than stock prices suggest.

According to Mark Hulbert, it took investors who bought in October 1929 took 10 years to get their money back with dividends reinvested. He adds that when you account for the deflation present at the time, it only took five years to get back to even in real terms.

While the latter conclusion is debatable, the claim that stock prices don't tell the full story about 1929 is undeniably true.

Foolish takeaway

The big takeaway of the market crash of 1929 is this: In market crashes, dividends matter.

Whatever the proponents of "dividend irrelevance theory" believe about normal market conditions, the fact is that dividends help in protracted downturns.

That's certainly one solid reason to invest in high dividend ETFs like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). After tumbling almost 30% in the past few weeks, the fund now yields 3.3%. No, that's not a great depression era yield, but it's a decent cushion against any capital losses you incur by owning the fund.

If you're looking for capital gains, U.S. funds almost always beat Canadian funds. It's in the income domain that Canadian equities really shine. Thanks to more than a decade of sluggish gains, the Canadian markets have very high yields on average.

So you can buy a fund like XIU and think of it as a safe, diversified income investment that provides you with a steady flow of cash regardless of what the markets do.

XIU also has a pretty low MER of 0.18%, so you won't see too much of your income eaten up by management fees. All in all, a solid play for tough market conditions.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/26
Date Created
2020/03/16
Author
andrewbutton