Even 'experts' fret over October financial bust

by Steve Parsons

For the past month, the confident aura surrounding Wall Street's market resurgence has been spooked by warnings of an October bust, and the euphoria is mutating into jitters, if not impending panic.

As October approached, financial commentators have increasingly noted the obvious: The stock market is wildly overblown, with price/earnings ratios now averaging 20-to-1 and going higher. The Federal Reserve's cut in the discount rate on Sept. 13—which slashed interest rates to the lowest levels since 1973-77—elicited only the most temporary sigh of relief; within hours, many on Wall Street, and at least one member of the Fed's Open Market Committee, were saying that another round of interest rate cuts would be needed.

This barely suppressed panic bubbled over into a Sept. 10 *Wall Street Journal* headline: "Autumn: A Season for Stock Investors to Beware?" "Attention investors," the story begins. "You have entered the autumn danger zone. . . . Several market veterans predict that this autumn, leaves won't be the only thing falling. Six of the 10 biggest single-day drops in U.S. market history . . . happened in October. . . . Years with October crashes or massacres 'were generally bull-market years in which you got to the fall and had an over-bought market,' " said one analyst.

Echoing the *Journal*'s jitters was Wilmington money manager Tony Hitschler, who told the *Philadelphia Inquirer,* "The stock market is very, very superstitious. . . . We just know October is going to be a bad month." Philadelphia stockbroker Paul Dannenbaum added, "I wouldn't be buying any common stock at this level, and that's a helluva thing for a stockbroker to say."

Europe disinvests in U.S.

More telling, however, is Europe's sober reaction to the U.S. depression and impending financial disaster. Germany's *Welt am Sonntag* newspaper of Sept. 22 quoted Banques Bruxelles Lambert monetary expert Roland Leuschel, who warns that another 1929-style crash, coming perhaps as early as this October, cannot be ruled out.

No one should believe the blather from U.S. experts about a "soft landing" last year, said Leuschel, noting a story about Michael Boskin, chairman of President Bush's Council of Economic Advisers: When Boskin told him last April that he saw light at the end of the tunnel, Leuschel responded, "Most likely that is the headlights of a train coming in your direction, and you're hoping you're not on the same track."

Leuschel cited the low savings rate; lack of consumer purchasing power in an economy in which two-thirds of expenditures are made by consumers; real estate and mortgage problems; and the immense U.S. indebtedness—the worst since 1929—as the reasons for fearing another crash this October at least as bad as October 1987.

Leuschel's comments reflect Europe's virtual disinvestment in the United States over the last 18 months. According to U.S. Commerce Department figures released Sept. 20, foreign investment in the U.S. plummeted in 1990. Direct investment in U.S. businesses dropped 47%, from $70.6 billion in 1989 to $37.2 billion, while "portfolio investment"—i.e., investments in stocks, bonds, etc.—practically evaporated, nosediving 87%, from $137.4 billion to only $16.7 billion. While Japanese investment stagnated at $16 billion, European companies invested only $13 billion in U.S. firms last year, compared with $40 billion the year before. By contrast, between 1980 and 1990, foreign holdings in the U.S. nearly quintupled.

Dollar is only a 'safe haven'

One little-recognized but crucial aspect of foreign disenchantment with the U.S. is the implication for the dollar. In a biting column in the Sept. 23 *New York Post* entitled "The Dollar and Peace," John Crudele noted that just about the only thing preventing the dollar's collapse is global turmoil. "Its 'safe haven' role is about the only thing the dollar has going for it right now," Crudele wrote. Peace on earth is a good thing, but "it isn't necessarily beneficial right now for either the U.S. or its currency. And, by extension, the lessening of friction around the globe could turn out to be harmful to this country's stock and bond markets, and detrimental to the U.S.'s ability to finance its budget deficit."

"If international tensions lessen, the dollar goes down," Crudele quoted David Schoenthal, currency expert and executive vice president for Lehman Brothers. During the attempted Russian coup, the dollar rose by 4% within 48 hours, as investors fled to the dollar as a safe haven.

Crudele added that "U.S. interest rates are unattractive by world standards. The economy here is struggling and beginning to scare even the Federal Reserve. And the ongoing scandals involving this nation's savings and loans as well as the Treasury auction probe of Salomon Brothers are giving foreigners the jitters. Without a world crisis, there's little reason for foreigners to put their money into dollars. . . . The dollar—after a strong first half of 1991—has fallen around 8% ever since the Russian coup failed. . . . And faith in the Fed is likely to erode with each new interest-rate cut. . . . Foreigners will become more and more worried."

Crudele does not mention that the dollar would have dropped even further, were it not for some $30 billion net profit from foreign tribute payments to the U.S. for Operation Desert Storm.

October is not necessarily the month for a crash, commented Crudele. "The day of reckoning for bonds might not come until early November when the Treasury attempts to pull off another of its massive quarterly sales of bonds. Interest rates may shoot up [and bond prices go down] if foreigners can't be convinced that there is a compelling reason to purchase bonds from us.

"But the trouble for stocks could come earlier. Forget that many stock experts consider stocks overpriced and dividend yields puny. Foreigners who invest in U.S. stock markets have other worries. If the dollar continues to fall [and interest rates decline], profits made on the stocks themselves could be lost when foreign capital is transferred back into their own currency."

U.S. economy ratchets down further

Foreigners aren't the only ones pulling their investments out of the United States. Big U.S. corporations are increasingly doing business with foreign banks, as well as insurance companies, while cutting their ties with U.S. banks, citing their concern about the reliability of U.S. banks as sources of credit, as well as their reliability regarding lending, cash management, and access to capital markets. Proportionally, twice as many big money-center banks as regional banks lost business from corporations because of their financial condition, while only 4% of foreign banks lost business for that reason. By contrast, Swiss banks gained enormously, by a margin of more than 2-to-1 over other foreign banks.

At the bottom of all this is the deepening U.S. depression, which even doctored statistics can no longer cover up with the rubric "sluggish recovery." Auto sales continue to plunge for nearly every reporting period, the most recent being a 16.3% mid-September drop from the levels of one year ago. Factory orders for durable goods fell 3.8% in August. And the ballyhooed "recovery" in home sales this year is now nothing more than a hiatus in the relentless downward spiral. Home sales fell 2.1% in August, following a 7.5% decline in July—despite marked cuts in mortgage rates. In the bellwether California market, which accounts for about 20% of all home sales nationally, sales of existing homes dived 9.2% in August. This was the third straight month of decline, even though sale prices have been falling. Meanwhile, California's unsold inventory index, which measures the number of months it would take to deplete the supply of homes on the market, was up to 12.7 months in August from 11.2 months in July.

Layoffs increasing

This is intersecting an intensifying wave of layoffs. Each day sees new headlines of corporate layoffs, such as 5,500 from Union Carbide and 1,800 from Lays, which are hitting everything from manufacturing to law firms. Indicative of the real level of unemployment is that what meager job openings do occur are besieged by applicants. In Norfolk recently, three companies offering 750 jobs were swamped with nearly 17,000 applicants standing in lines for hours.

Since the Bush administration and the economists cannot admit that the mythical "recovery" never happened, the media are spewing forth the nonsensical line that the "recovery" is being impeded by yet another inexplicable drop in "consumer confidence." They trot out the latest survey by the Conference Board, showing a third consecutive month of declining optimism, to the most negative readings since the 1982 recession. Only 11% of those contacted by the survey believe business conditions are "good," the survey showed; more than four times as many say that they are "bad." Their conclusion: that the vicious consumer is "unwilling" to spend the money that he doesn't have, because he is "hoarding" it—in savings accounts that are dropping like a brick! *Business Week* termed this the "FUD Factor"—fear, uncertainty, and doubt.

Office of Management and Budget director Richard Darman commented Sept. 22 that the recession really ended this summer; it's just that consumers don't know it. Sen. Phil Gramm (R-Tex.), however, summed up the view of his constituents: "It may well be that the economy turned the corner last month, but it sure didn't leave any skid marks when it turned."