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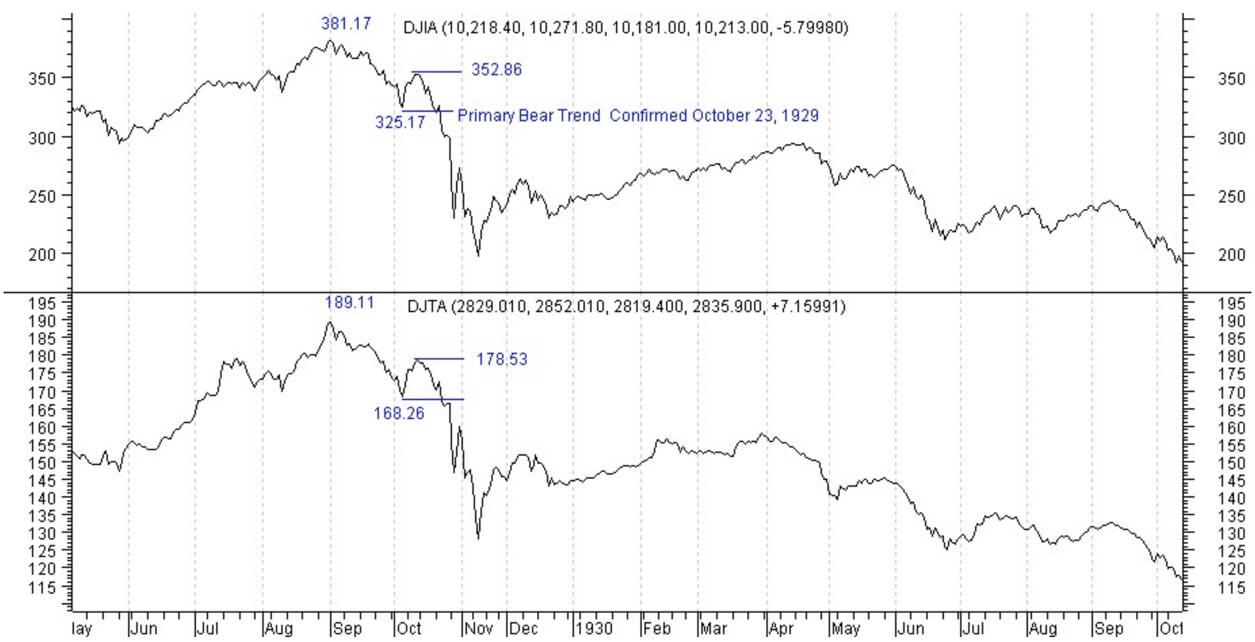
William Peter Hamilton Calls the 1929 turn using Dow's theory

William Peter Hamilton regarded the reaction October 4, 1929 at 327.17 to October 10,1929 at 352.86 as being of secondary importance is indicated by the following excerpt from a discussion of the price movement appearing in The Wall Street Journal, October 21, 1929.

"If, however, the market broke again, after a failure to pass the old highs of September 3, 1929 at 381.17, and the decline carried the price of the Industrials below 325.17 and the Railroads below 168.26, the bearish indication would be strong, and might well represent something more than a secondary reaction."



The critical points mentioned above were broken on October 23, 1929, and the next day William Peter Hamilton wrote his famous editorial in The Wall Street Journal, which appeared on the morning of October 25, 1929 under a caption A TURN IN THE TIDE, which is quoted in full as follows:

"On the late Charles H.Dow's well known method of reading the stock market movement from the Dow-Jones averages, the twenty railroad stocks on Wednesday, October 23 confirmed a bearish indication given by the industrials two days before.

Together the averages gave the signal for a bear market in stocks after a major bull market with the unprecedented duration of almost six years. It is noteworthy that Barron's and the Dow-Jones NEWS service on October 21 pointed out the significance of the industrial signal, given subsequent confirmation by the railroad average. The comment was as follows:

'If, however, the market broke again, after a failure to pass the old highs, and the decline carried the price of the industrials below 325.17 and the railroads below 168.26, the bearish indication would be strong, and might well represent something more than a secondary reaction, however severe. It has often been said in these studies of the price movement that the barometer never indicates duration. There was a genuine major bear market in 1923, but it lasted only eight months. One good reason for not taking the present indications too seriously is that they have all been recorded in a most unusually short space of time. The severest reaction from the high point of the year had just one month's duration. In view of the nation-wide character of the speculation, this seems a dangerously sort period to infer anything like complete reversal in public sentiment.'

There was a striking consistency about the market movement since the high figure of September 3. There were at least four rallies in the course of the decline in the industrials before the definite new low point was established and each of these was weaker than the last. Dow always considered this a danger signal, but for the past thirty years it has been the custom in discussing the stock market as a barometer of business to require that one average should confirm the other. Failure to agree has been found deceptive.

There are people trading in Wall Street, and many all over the country who have never seen a real bear market, as for instance, that which began in October 1919, and lasted for two years, or that from 1912 to 1914 which predicted the Great War if the world had then been able to interpret the signs. What is more material is that the stock market does forecast the general business of the country. The big bull market was confirmed by six years of prosperity and if the stock market takes the other direction there will be contraction in business later, although on present indications only in moderate volume.

Some time ago it was said in a Wall Street Journal editorial that if the stock market was compelled to deflate, as politicians seemed so earnestly to wish, they would shortly after experience a deflation elsewhere which would be much less to their liking."

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William Peter Hamilton used Dow's theory to call the worst financial disaster of the 20th Century.

We must learn to interpret and listen to the theory.

The following is an essay written by Rami Schwartz about the aftermath of October 23, 1929

The Great Economic Depression of 1929.
A crisis of historical magnitude

On Wednesday October 23, there was an unexpected fall in stock prices. There had been many warnings, Wall Street was feeling pretty restless and that anxiety extended to the rest of the country. The following day, prices plummeted, falling harder by the minute and by 11:00 AM it had turned into an avalanche. Panic engulfed the market and by the end of the day 13 million shares had changed hands. But the worst had yet to come. On Monday, October 28 the losses worsened and the day after -Black Tuesday- is still considered by historians as the most devastating in the history of financial markets. 16 million shares changed hands and many could not find buyer, no matter how low the price. By mid-November, 30 billion dollars had disappeared, the same amount of money spent during World War I .

Political and business leaders took a long time to grasp the events. By the time they understood the crisis it was already too late, it had turned into the worst economic nightmare of American history.

Right after the collapse in stock prices President Hoover reassured the population that the crash reflected only a financial crisis but that the industries (their manufacturing facilities and distribution channels) were basically sound. Henry Ford declared, in November 4 of 1929 that "Things are better today than they were yesterday"; Hoover said a week later that "any lack of confidence in the economic future of American enterprises is foolish" and Charles Schwabb, president of Betlehem Steel said in December of 1929 that "never before had American finances been so soundly prepared for prosperity than now" (12). But sooner than later reality proved the President and all the business leaders wrong and they had to accept that the economy was in a profound recession and later a depression of unimaginable consequences.

The crash of the stock market had worsened the already severe structural damages of the United States' economy, but the worst had yet to come due to the erroneous policies implemented by the US government:

1) In the first place, the Federal Reserve decided to defend the value of the dollar above anything and imposed higher interest rates in order to prevent the money from being turned into gold. The obvious happened, the heavily indebted consumers repudiated their debts due to the rise in interest rates and triggered a banking crisis.

2) Secondly, the FED dried up the economy by keeping the money supply very tight. This submerged the nation in a cash flow crisis and aggravated the crash in both the stock and real estate markets.

3) Finally, in an attempt to fight inflation and maintain a balanced budget, taxes were raised reducing the purchasing power even further.

The most universal example of counterproductive government policy was the effort to keep a balanced budget. Doing so proved impossible because the depression caused tax revenues to decline at the same time that the government was being forced to spend more in relief for the needy. With prices falling, unemployment high and economic activity stagnating, deliberate deficit spending would have provided stimulation to the economy, however the contrary was done, expenditures were reduced to a minimum and additional taxes were imposed. During the period between 1931 and

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1932, Herbert Hoover made no fewer than 21 public statements stressing the need for a balanced federal budget. After loosing the election in 1932, he even pleaded Franklin D. Roosevelt to maintain fiscal discipline "even if further taxation is necessary".

These measures were fully backed by the big corporations and the very wealthy individuals to whom the tightness of Hoover's policies made perfect sense. Regardless of the crisis, many conglomerates such as U.S.Steel, DuPont, Shell Oil, Gulf Oil and General Motors managed to expand. After the crash they were able to buy businesses and properties at basement bargain prices (13). However the policies described above made no sense for the ordinary citizen because by the early thirties the United States' economy was in obvious depression. Two months after the crash several million people had lost their jobs, many businesses had closed, sellers had been fired and factories had cut their production and decided not to grow further. Office buildings, homes, apartments and hotels everywhere had few tenants and the construction industry came to a complete halt. Banks curtailed their loans and the industry ceased to receive funding. The automotive industry exploded like an inflated balloon, the Ford Motor Company which had 128,000 workers in March of 1929 lowered the payroll to 37,000 eighteen months later. The Metropolitan Life Insurance Company estimated that in the large cities unemployment had reached 24% of the economically active population .

Prices of many goods began to fall as companies sacrificed their margins or even operated with losses. That prompted further layoffs and lower wages which in turn meant less consumption and an aggravation of the slump. Deflation followed the depression and both started feeding each other, creating a vicious circle.

This deflation, the lack of markets and the faulty policies of the government, led to the bankruptcy of thousands of companies and the loss of millions of jobs. Both companies and individuals began to default on their credits and soon banks began to go belly-up and a financial panic spurted. By 1932 over a quarter of all banking institutions in the United States had closed and 9 million people lost their savings.

For the American agriculture, the Great Depression climbed on top of a five year old ongoing crisis. As if this was not enough, in the early thirties the United States suffered one of the worst droughts in history. Banks repossessed farms and ranches, and in the three years that the depression lasted, more than 750,000 farmers lost their land, harvests and animals. These people had to abandon the rural life and migrate to the cities putting more pressure on industrial wages and further expanding extreme poverty and public insecurity.

Children suffered the deeper wounds of the Great Depression which was a very heavy burden for them to carry. Education suffered, schools closed and many children had to work to earn extra cash for the family. Others had no shoes to walk to school. Milk consumption fell everywhere and mal-nourishment problems and other illness caused by weakness became common . Labor laws were violated constantly and even children started working in factories, farms and shops.

The depression was very hard on workers and it almost killed the labor movement in the United States. As jobs disappeared, union membership fell dramatically. The American Labor Federation reported a loss of 1.5 million affiliates from 1920 to 1929 and a further erosion in the years that followed. The ability of unions to bargain collectively was lost and workers accepted lower wages, longer hours and avoided strikes in order to preserve their source of income. By 1933 unemployment was so high that poverty became common. Hoover rejected a proposal to implement unemployment insurance and in exchange offered the jobless 1.5 billion in loans.

This plan, like many others sponsored by Hoover had little success if any at all.

Middle classes stand also among the casualties of the depression. First they spent their savings, then they collected their insurance policies and finally had to sell their jewelry and even their furniture. Then they began to owe money to the convenience store in the corner that later could not repay. Finally they had to move to poorer neighborhoods. More than 273,000 families lost their homes for not paying their mortgages . Professionals, who had been working for 15 or 20 years in their fields suddenly lost their jobs and a college education had meaningless value. Unemployed graduates from Penn, Harvard, Yale, Columbia, Cornell, etc., formed an association. Doctors treated patients for free; teachers worked for charity; writers, artists and advertisers had to accept low paying jobs; small businesses collapsed or were absorbed by the larger firms. By the end of 1933, 85,000 businesses had failed, their losses amounted to many billions . Prices of properties also plummeted and the signs "for rent" or "for sale" were found everywhere .

Many blacks from the South migrated to the North since the depression favored extreme right-wing and left-wing positions. In the United States the Ku Klux Klan and other racist anti-immigrant organizations began to flourish. Borders closed up to new immigrants and in the rest of the world extreme positions developed such as those promoted by Hitler, Stalin, Mussolini and Franco.

As the crisis aggravated, rescue programs started multiplying. The "Hoover hotels", huge warehouses in which homeless people took refuge, long lines of soup and bread giveaways to prevent thousands from starving. Beggars multiplied in every corner and people were willing to work for food. The administration attempted many rescue plans directed to agriculture, unemployment and relief for the small and medium size industries but all of them failed. Hoover created the reconstruction finance corporation and capitalized it with 2 billion dollars, however it was hardly enough, the crisis was already too deep and despite the intervention in 1932 the situation worsened. The mean income of the American worker declined from 1,719 dollars in 1929 to 772 in 1932 and the agricultural GNP declined from 12 billion to 5 billion in the same period. The government tried to subsidize the agriculture however the huge cost associated with this forced the Hoover administration to abandon the project.

Millions had no shoes, yet footwear factories were operating at marginal capacity. Hundreds of thousands had no food, yet gallons of milk and silos of grain were dumped and burned. Meanwhile, concentration of wealth increased. Those who had money invested in government bonds which always honored their obligations even while sacrificing infrastructure, education, social security and public safety projects.

Farmers, workers, businessmen, intellectuals, politicians and even artists asked Hoover repeatedly to abandon the conservative policies of the past. He responded by saying that he would not echo the voices of the demagogic and the irresponsible and that he would stick to the orthodoxy. Herbert Hoover, isolated in the White House, tried to deal with a crisis he could not truly understand, while one quarter of the nation had no regular source of income .

Consequences of the Great Depression of 1929
1) When the government dried up the economy and increased interest rates, there was an uncontrollable growth in unpaid loans. Such rise provoked the bankruptcy of many banks and a financial panic.
2) This panic was aggravated by the symbiosis between banks and brokerage houses because the latter utilized the deposits of the first ones to speculate.
3) Consumer markets dried out because of the lack of buying power of the majority of the population.
4) With supply exceeding demand, prices started to fall until deflation took hold of the economy.
5) 85,000 businesses went bankrupt. Their losses amounted to 4.5 billion.
6) Unemployment shot up to over 30% which affected the expectations of the entire society.
7) Emergency plans grew exponentially. They came mostly late or lacked proper funding and they failed.
8) Suicide rates and murders per thousand inhabitants grew to record levels.

9) Millions of farmers lost their lands and were forced to migrate to the cities, aggravating the poverty.
10) The huge capitals that accumulated during the 1920's were not reinvested in the economy since consumer markets were dry. When investment fell, the ability to generate savings also plummeted.
11) Racism and xenophobia spread. Borders were closed to all new immigration.
12) The Depression favored political extremes around the world. In Germany the far right (Hitler) and in the USSR the far left (Stalin).
13) The political crisis that began with the depression cost the Republicans the Presidency and Congress which they were unable to recover for nearly a generation.
Rami Schwartz

Revised: August 26, 1996