

JERRY F. WELCH

**HAUNTED
BY
MARKETS**

**THE BIG FOUR:
STOCK, BOND, CURRENCY, AND
COMMODITY MARKETS
1990 - 2015**

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JERRY F. WELCH

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INTRODUCTION

History has always possessed me and I have always been haunted by markets. This book is

about history. The history of the Big Four: stocks, bonds, currency and commodity futures in the years 1990 to 2015, as I witnessed and wrote about it in my weekly newspaper column, Commodity Insight, or, Commodity Insite. And there is a story behind why there are two different names for my weekly column, but I won't go there now.

I have been writing a weekly column for the Illinois Agri News in La Salle, Illinois since the early 1980's. Cattle Today is located in Fayette, Alabama and has been publishing my weekly ramblings for more than 20 years. Consensus, National Futures and Financial Weekly, located in Kansas City, have also been publishing my work for longer than I can recall. Each is a weekly publication.

To my knowledge, no one has written for so long about and had published in a weekly or daily newspaper, the history of the futures market and how the Big Four would dance the week away. Dance they did. And dance they still do.

I did reach back in time for this book and used a few columns from the 1990's and onward because history is the bridge between the past and the present, in particular where markets are concerned. There are also big gaps that are there on purpose. After all, how big a book would I have if I published each column for the past 30 odd years.

Watching the markets dance all these years, there are more lessons to be learned than can be related here. But several lessons to be learned stand out larger than others. For instance, when it comes to forecasting and predictions, "No One Knows For Sure" regardless of the market, the analyst offering the guess, an omen, the cycle of the moon or the Zurich Gnome. The bottom line is clear. "No one knows for sure" when it comes to forecasts and predictions.

The other standout lesson to follow and remember, from an old Chinese saying, and I quote, "始終使用句號" If there was one practice that should be followed each time a buy or sell is made in any futures market, it is recalling that well known, hoary old saw from China. Loosely interpreted it means, "always use stops" to control risk.

John Maynard Keynes, a British economist whose ideas known as Keynesian economics had a major impact on modern political and economic theory, is credited as saying, "The market can remain irrational longer than you can remain solvent." Supposedly, Mr. Keynes made that statement after being humbled financially by a number of high leveraged trades that turned sour. He was humbled because he failed to keep in mind, "始終使用句號"

This is a history book as I viewed the events and how they unfolded weekly in the futures market. The futures market is the pulse of the world. Whatever takes place, good or bad, manic or depressing, shows up quickly in the Big Four.

You will find that some of my predictions and forecasts were outstanding. Others downright embarrassing. But I never once backed away for offering an opinion or an outlook. This book is loaded with personal forecasts, opinions and predictions for the futures markets. Warts and all. Like ‘em or not.

Mark Twain once said, *“History doesn’t repeat itself, but it does rhyme.”* In my view he was not quite correct with that take on the past. History does repeat itself, and in particular when it comes to markets. Why is that you ask? Because history shows clearly that human behavior, fear and greed, never change. Market movement, north or south, up or down, bull or bear markets, all boil down to fear and greed.

Mark Twain is credited with another saying far less known than the one above. This is one of my favorite quotes of all time. He once said and after taking a huge financial loss in a stock, “There are two times in a man's life when he should not speculate: when he can't afford it and when he can.” Of course, had he followed that old Chinese saying, “始終使用句號” he may not have taken such a big financial loss in that stock and not come up with that quote. Mr. Twain should have used a stop!

Another lesson I learned all these years watching the numbers and markets dance across my computer screen is that more often than not, unexpected events can turn a bear into a bull in no time at all. Or, vice versa. Markets, bull or bear trends and “things” in general, can change overnight, and usually when one is least expecting them to do so.

In the early 1950’s a young journalist asked incumbent British Prime Minister Harold Macmillan what he considered was most likely to push his government off course and into a new direction. He stated, “Events, dear boy, events.” Over the years while watching the Big Four move this way and that when an unexpected event caused things to change, oh, how the markets would trip the light fantastic!

Michael Crichton, an American best-selling author, physician, producer, director, and screenwriter once said, “If you don't know history, then you don't know anything. You are a leaf that doesn't know it is part of a tree.” Hopefully, this book will show a bit of history as I recorded it and you may end up learning something new. And have some fun along the way.

One final thought. Reading about history in general is one thing. Reading about the history of markets is another. When reading about the Big Four, one is quickly pulled into the world of, “coulda, woulda, shoulda.” The history of markets is all about what you could have done. What you would have done. And what you should have done. But then again, there is always today and tomorrow because history is being made right this very moment.

** *“Early 1990s recession. Iraq invaded Kuwait in July 1990, causing oil prices to increase. The Dow dropped 18 percent in three months, from 2,911.63 on July 3 to 2,381.99 on October 16, 1990. This recession lasted approximately 8 months.”* Wikipedia.org

January 1, 1990: Grocer to the World

The historic events unfolding in Eastern Europe signify not only the demise of Communism, but provide further proof that the most dynamic markets in history for agribusiness are just around the corner. The 1990s will come to be known as the Golden Age of Agriculture as the entire world moves towards democracy and the free market system.

The final decade of the 20th Century will spawn unprecedented and tumultuous price swings for grains, livestock, fiber and tropical commodities. The soon-to-be-booming agricultural markets will be sparked by a force that has only until recently played any role whatsoever in determining prices. That force is demand worldwide in scope and on a level never before experienced.

Sound farfetched and unbelievable? Not really, because for the first time in history, the entire world wants what the United States already has. The world wants a standard of living comparable to that of the average American household.

The demonstrations in Eastern Europe, for example, were inspired by disgruntled citizens seeking freedom and better living standards for themselves and their families. The people of the Eastern Bloc nations realize that free elections, along with a free market system, are their ticket to a much higher standard of living.

Whenever any nation or group of people begin to achieve a higher standard of living, the very first thing they spend money on is food. They want food long before they want new cars, VCRs or fancy clothes. And that's where the American agri-businessman comes into the picture. Because the American farmer and rancher are going to assume the responsibility of feeding the people of the world and satisfying their demands, the United States in the decade of the 1990s will become grocer to the world.

Yes, We Ain't Got No Bananas.

Few nations have within easy reach high quality food available on a regular basis. That may be commonplace for the average American family, but it is still a luxury for a majority of the world's people, especially for those people living under the rule of Communism and state-controlled economies.

In a recent article in the Wall Street Journal, for example, Roger Thurow reported that a West German store owner in the city of Hof expressed wonderment over the fact that he sold all the bananas he had to East German shoppers. "Even green bananas are selling," the store owner said.

The article goes on to state, "In two days visiting East Germans, some of whom have never before seen a banana, be it yellow or green, bought so much of the fruit that the vendors around Hof were virtually banana-less." The East Germans created a "banana crisis" by scrambling for a common, everyday fruit once unavailable to them.

An economist would view that situation and simplify it by saying that the demand for bananas outstripped the supply.

Down the street from that fruit stand is a McDonald's restaurant. The East Germans created another shortage when they gobbled up every Big Mac, fries and soda in sight. The manager of the McDonald's said that his business "has risen 300 percent" since the East Germans opened their border to the West. "My five cash registers can't keep up with the demand," he said.

In essence, that is exactly what's going to happen to American farmers and ranchers in the last decade of the 20th Century. They too, are going to have a difficult time keeping up with demand now that the world is moving towards a free market system.

A New Us

But demand for a higher quality food from Eastern Europe is only part of a much larger scenario developing worldwide. The fact of the matter is that the entire world will soon be facing double trouble of overpopulation and a pollution glut.

F. Henry Firsching, a professor in the School of Sciences at Southern Illinois University at Edwardsville says, "By the year 2000, just 10 years away, well over 6 billion people will inhabit the planet. The current birth rate," he continues, "now exceeds the death rate by about 88 million people each year. In a three-year period, the new mouths that must be fed are more numerous than the present population of the United States."

Professor Firsching also poses some troubling, but thought-provoking questions about the world we face early in the next century. "When," he asks, "does the world run out of resources to care for all these people?"

He notes that the world's total acreage in agricultural land is shrinking as homes, roads and factories are being built. He also points out that farmland is being degraded by deforestation, air pollution, acid rain and ozone depletion. Ozone depletion and ozone concentration in the upper atmosphere cuts soybean production about one percent.

"The sum total of all these factors," says Firsching, "is a significant loss of agricultural production around the world. And the worst part of this scenario is that these factors are expected to become worse in the near future."

Keep in mind that the key to agricultural production has always been, and always will be, Mother Nature. An increase or decrease in demand can certainly push prices higher or lower. But, it is Mother Nature that determines just how much of a commodity will be produced.

Interestingly enough, the warmest years globally since records began about 100 years ago were all in the 1980s. In order, they are: 1988, 1987, 1983, 1981, 1980 and 1986. Since weather patterns tend to linger, the decade of the '90s may be nothing more than a repeat of the '80s. It is quite possible that the unusually hot and dry weather that plagued farmers and ranchers all over the globe in the 1980s will do so again in the final decade of the 20th Century. Mother Nature knows not when one decade ends and another begins!

Increased demand from the Eastern Bloc nations, pollution, overpopulation and continued problems with weather are the main forces that will underpin commodity prices in the decade of the '90s. However, they are not the only forces which will support prices as the new decade unfolds.

Another factor that will provide immeasurable support for the Ag markets is a weak U.S. dollar. In the 1970s, for instance, a weak U.S. dollar was a key ingredient in helping to push most ag markets higher. Conversely, a strong or rising dollar during the 1980s helped bring about a decade of price inflation.

The coming decade will be one where the U.S. dollar is basically weak or on the decline. On the surface that that may seem to be a detriment to the American economy but in reality it is not. A weak dol-

lar will prove to be a boon for U.S. agricultural exports and a godsend for the American economy as a whole.

Farmers and ranchers are about to enter the most exciting and prosperous decade in history for agricultural America. There will, of course, be pitfalls and problems, there always are. But the problems encountered will pale in comparison to the bountiful times that appear to be just beyond the horizon.

*** "DEFINITION OF 'IRRATIONAL EXUBERANCE'" Unsustainable investor enthusiasm that drives asset prices up to levels that aren't supported by fundamentals. The term "irrational exuberance" is believed to have been coined by Alan Greenspan in a 1996 speech, "The Challenge of Central Banking in a Democratic Society." He said that low inflation reduces investor uncertainty, lowers risk premiums and implies higher stock market returns." Investopedia.*