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A COMPARISON BETWEEN THE GREAT RECESSION OF 2008-2009 AND THE GREAT DEPRESSION OF 1929-1933 AND THEIR AFTERMATHS

The Great Recession began in December 2007 and ended in June 2009, lasting for a period of 18 months. Gross Domestic Product (GDP) declined 3.7%, from peak to trough, and the unemployment rate rose to 10.0%. GDP peaked in the 2nd quarter of 2008 and declined for 12 months until the 2nd quarter of 2009. GDP subsequently surpassed its previous peak in the 3rd quarter of 2010, 27 months after its previous high.

The Great Depression began in August 1929 and ended in March 1933, lasting 43 months. GDP declined 45.6%, from peak to trough, and the unemployment rate reached 24.9%. GDP peaked in 1929 but did not attain that level again until 1941, 12 years after that previous high.

As a result of the Great Recession, the stock market, as measured by the Dow Jones Industrial Average, peaked on October 11, 2007 at 14,198 and subsequently fell to 6,470 on March 6, 2009, for a decline of 54.4% over a period of 17 months. It made a new high 4 years later, on March 5, 2013, at 14,286.

During the era of the Great Depression, the stock market, as measured by the Dow-Jones Industrial Average, fell from a high of 386.10 on September 3, 1929 to a low of 40.56 on July 8, 1932. That was a decline of 89.5% over a period of 34 months. The stock market did not surpass its 1929 high until November 24, 1954, when it hit 387.05, after a period of 25.2 years.

THE ECONOMY

	GDP PEAK-TO-TROUGH	DURATION OF DECLINE	PEAK UNEMPLOYMENT	GDP PEAK-TO-PEAK
Great Recession	-3.7%	1 year	10.0%	27 months
Great Depression	-45.6%	4 years	24.9%	12 years
GR as % of GD	8%	25%	40%	19%
GD as multiple of GR	12x	4x	2.5x	5.3x

THE STOCK MARKET

	DJIA PEAK-TO-TROUGH	DURATION OF DECLINE	DJIA PEAK-TO-PEAK
Great Recession	-54.4%	17 months	5.4 years
Great Depression	-89.5%	34 months	25.2 years
GR as % of GD	61%	50%	21%
GD as multiple of GR	1.6x	2.0x	4.7x

In short, the Great Depression was much more severe than the Great Recession, and its aftermath lasted much longer. Furthermore, while the stock market recovered from the Great Recession in just 5.4 years, it languished as a result of the Great Depression for 25.2 years.

A legitimate inference from the foregoing comparison would seem to be that, in the management of our financial assets, we should always try to prepare for at least the possibility of an economic debacle even more traumatic than that associated with the Great Recession of 2008-2009.

One important way to pursue this objective, we believe, is to make sure that our investment portfolios are populated predominantly with securities of very high quality.

(This paper represents the general economic overviews of Clifford Dow Sr., and does not constitute investment advice, nor should it be considered predictive of any future market performance.)

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