



Thought for the Week: Monday, November 7th, 2011

The Bankers' Panic: Plus ça change, plus c'est la même chose...

... "the more things change, the more they remain the same" – a topical quote as last week marked the 104th anniversary of the 1907 Bankers' Panic, a liquidity crisis that led to the creation of the U.S. Federal Reserve System.

We did have a central bank before 1907. The First and Second Banks of the United States were central organizations that aimed to create financial stability, including the federal backing of the various debts amassed during previous wars.

Unfortunately, in 1907 neither The First nor The Second Bank of the United States could prevent speculative asset bubbles and the excessive printing of money. And there was no FDIC in those days!

Why is this Topical?

Back in 1907, the country was gripped by a financial liquidity crisis which became known as the Bankers' Panic. As with our recent troubles, the normal ups and downs of various markets were amplified by excessive speculation, irresponsible lending and financial engineering. The fact that risk was unknowingly bringing the system down suddenly came to a head. In the first nine months of 1907, stocks were 25% lower.

On Oct. 21, copper prices collapsed as an attempt to corner the market by mining magnate F. Augustus Heinze and banker Charles W. Morse failed causing Knickerbocker Trust, the third largest bank in New York, to fold.

Runs on bank capital, stock volatility, bankruptcies and wild rumors became endemic within financial markets – the unknown effects of potential contagion had everyone retreating to their financial trenches.

Operations like Knickerbocker that were too far in debt were left to die and large losses resulted. Banks, brokerages and businesses that were fundamentally sound but deemed to be in temporary shortage of liquidity were supported.

On Nov. 3rd, 1907, in the library of his Fifth Avenue mansion, John Pierpont Morgan cajoled the presidents of several prominent trust and industrial companies to sign an agreement which effectively ended the Bankers' Panic of 1907. By injecting private liquidity into the financial system, he stopped the crisis of confidence by creating a rescue package.

Public and Government reaction was a mixture of shame and anger. In response, Congress put the wheels in motion which resulted in the creation of the Federal Reserve central banking system six years later, on Dec. 23, 1913.

Does any of this sound familiar? Apart from the names and the technology, how much has really changed in 100 years?

This commentary is not intended as investment advice or an investment recommendation it is solely the opinion of our investment managers at the time of writing. Nothing in this commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. Liquid securities, such as those held in DIAS portfolios, can fall in value.
Global Financial Private Capital is an SEC Registered Investment Adviser.



Private Capital

COMPREHENSIVE WEALTH MANAGEMENT

Ironic?

In the early years of the twentieth century, the Federal Reserve was created to address public outcry and government shame caused by a banking crisis. The task of the Federal Reserve, then and now, is to bring stability to the U.S. economy.

The same Federal organization is now under pressure as “End the Fed” promoters seek a better way of controlling the financial system. Never mind the excessive expansion of debt and derivatives that brought the world to its knees. Didn't we all think the authorities had put in place controls to prevent bankruptcies like last week's MF Global Chapter 11? Is anyone protecting investor capital?

One last word – does this all mean the financial world is coming to an end, as many talking heads and typing hands would have you believe?

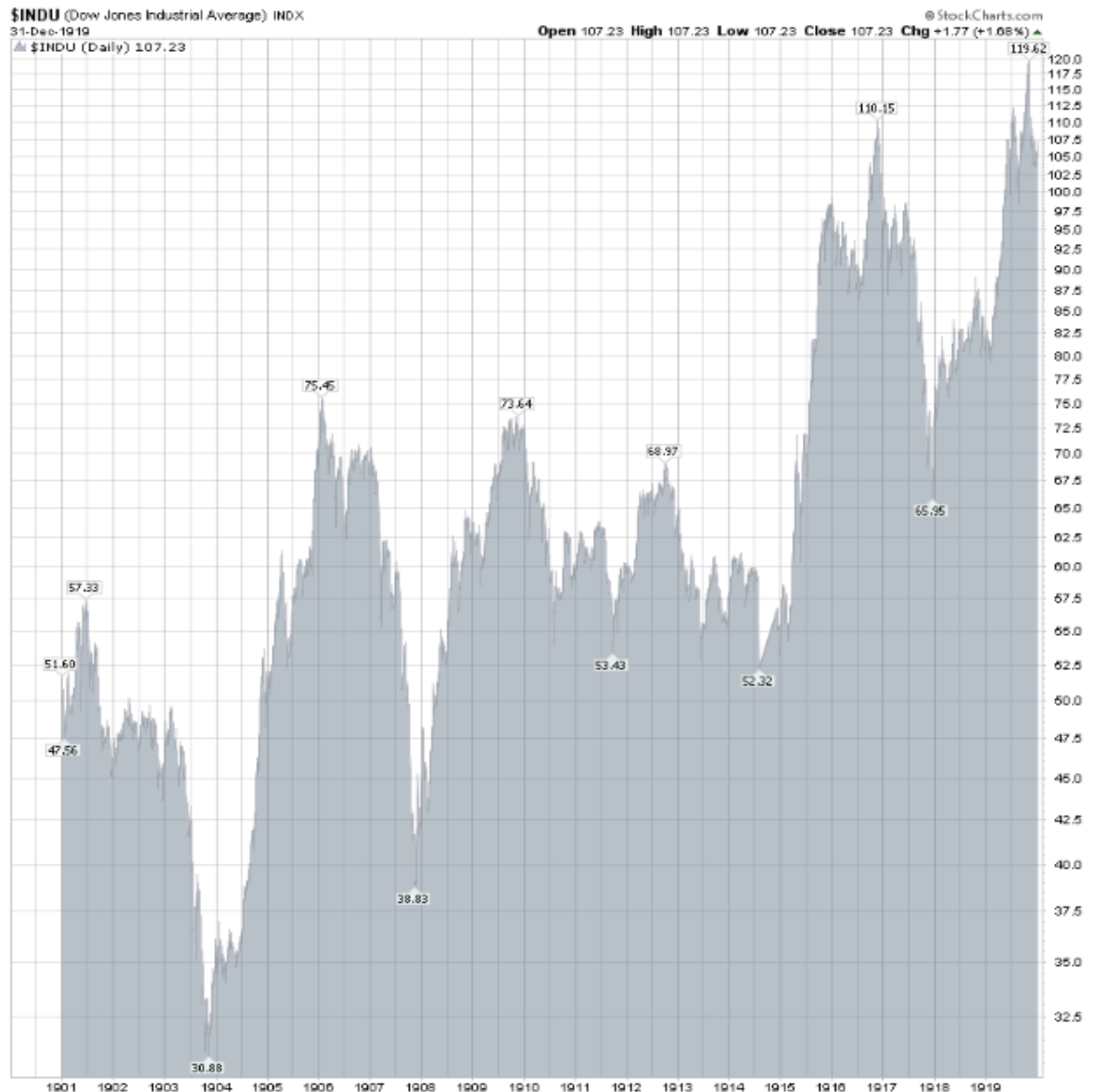
Should we all be running to cash?

The chart to the right shows what happened to the Dow Jones Industrial Average in the years before and after 1907.

No guarantees, but it does show that being a contrarian; staying the course while all around panic, was beneficial 100 years ago.

Plus ça change...?

Dow Jones Industrial Average (1900 - 1920 Daily)



This commentary is not intended as investment advice or an investment recommendation it is solely the opinion of our investment managers at the time of writing. Nothing in this commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. Liquid securities, such as those held in DIAS portfolios, can fall in value.

Global Financial Private Capital is an SEC Registered Investment Adviser.