DocOnomics
Financial and Investment Insights for the Physician

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"Don't look back. Something might be gaining on you." **We rejoice at the chance to pay homage to baseball pitching legend Leroy "Satchel" Paige for these pearls of dugout wisdom. Satchel's sage advice not only is a guidepost for interpreting the current state of investment markets but also a point of departure for fine-tuning personal wealth management strategies.**

DON'T LOOK BACK

If we look back just a few months, we observe that the Dow Jones Industrial Average has risen 32% from its March 9 low of 6,440. This is a breath of fresh air considering that today's Dow still is down 28% from a year ago. Looking back 10 years, today's Dow is down 20% from a decade ago. If something has been gaining on us, it has not been the stock market. Mainstream investment firms that advocate "buy and hold" and "invest for the long term" have been hard at work burying this headline story. (Writer's note: all references in this commentary to the Dow can be extended to the stock market in general.)

In life, if we spend too much time looking back, the likely result will be a stiff neck. However, a backward glance at the 1920s, 1930s and 1940s is a valuable exercise even if it gives us pause for a stiff drink. History tells us that the Roaring Twenties was a decade of great financial prosperity. If we look closely enough, we see that the prosperity of the 1920s was fostered by a breakdown in government oversight of the financial sector, failure of corporate governance and the birth of corrupt business practices leading to widespread fraud. At ***DocOnomics***, we cannot help but notice that today's script is a rewrite of this fading chapter in economic literature. The common thread between now and then is that the laws of mass greed and mass fear in civilized societies never were repealed.

As we look back to see what might be gaining on us, we sense that economies and investment markets that sink under the weight of greed and excess will be buoyed by government bailouts and interventions of great magnitude. It happened in 1930 just as it is happening in 2009. In 1930 the Dow managed a 48% rally off its 1929 low as government rescue missions were launched. If history repeats and we are rewarded with another near 50% rise, the current Dow rally could carry all the way to 9,700 from the 6,440 low recorded on March 9. But then what? Eventually, governments will run out of fairy dust. Following the near 50% Dow rally in 1930, there was a breathtaking 86% collapse in the Dow that extended over 2 years. Continued government bailouts and interventions were incapable of altering the economic laws of nature and thwarting the triumph of mass fear over mass greed. The world changed forever in 1932 as increasingly desperate governments resorted to increasingly desperate measures.

Now let us imagine ourselves in the post-war decade of the 1950s, when adults looked back and recalled a sobering parade of events that included financial devastation for many tens of millions, a global war without historical precedent, the deployment of atomic weapons against human populations and the emergence of Communism on a very broad scale. All of this resulted from desperate governments doing desperate things. Looking ahead, should we expect a vastly different outcome?

All told, we at ***DocOnomics*** sense that something very dark and sinister might be gaining on us given the historical parallels between the 1930s and the present decade. Notwithstanding, there is something gaining on us that is of a much shinier hue. In each and every year since 2000, the price of gold has advanced. For most investors, this performance record for gold is a complete mystery. For those willing to let history into their lives, it is easily explained. Governments are prone to great excess because elected and non-elected officials are easily intoxicated by the power to spend other people's money. Accountability tends to fall by the wayside whenever "spendrenaline" courses through the veins. At all levels of society, accountability is the mortar that binds the bricks. Without it, the walls eventually come tumbling down. Throughout recorded history, gold always has retained its brilliance as a store of wealth when governments desperately attempt to paper over problems created by long periods of reckless financial behavior. Gold is financial accountability and a time-honored hedge against the erosion in value of government-issued money. It deserves a place in most portfolios.

From 1920-1950, people weren't so much investors as they were a passengers on an arduous ocean voyage. Those who stowed some emergency provisions, kept their life jackets close at hand and received one or more kisses from Lady Luck made it to the end of the journey. We can't help but think that 2000-2030 is another one of those harrowing voyages and that the market's 2009 rally is nothing more than a tip of the hat to government pitchers that have resorted to throwing kitchen sinks because they have run out of baseballs. Satchel Paige always had some trick pitches up his sleeve. Sadly, he no longer is warming up in the bullpen.

Our daily efforts to prudently manage wealth must consider the possibility that the Dow will continue its rally toward 9,700 (or beyond). However, we should be much more concerned with what lurks around the corner and must remain cognizant of what occurred in 1930-32 and beyond. The fact remains that desperate governments still are hard at work taking desperate steps to fight what amounts to yesterday's battles. Looking back teaches us that "watching our back" is indeed a prudent wealth management strategy.