The Millionaire Within

ARCADIA WEALTH MANAGEMENT

# Hemline Index

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> *"The future's uncertain but the end is always near."*
>
> *Jim Morrison, the Doors, "Roadhouse Blues".*

Many investors are losing valuable sleep listening to the misguided, canary-in-the-coal-mine commentators expounding on an imminent stock market crash due to a future recession (the "R" word). Paradoxically, if too many investors believe the same thing, as fate would have it, the "R" might just become a self-filling prophecy! On the other hand, the Wall Street axiom "a bull market climbs a wall of worry" may also suggest that too much negative investor sentiment may have the opposite effect and the market will continue to rise. It may make more sense to refrain from prognostications. The great investor Warren Buffett said, "Short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children." — 1992 Berkshire Hathaway Chairman's Letter.

There will always be uncertainty; we cannot command which events will manifest in the future. What we can control is what happens in the present. It is indisputable that some of the best investments can be found in the ownership of common stock. Ownership of great companies with consistent earnings, increasing dividends and innovative products are the proven road to success. In the past twenty years, the global community has experienced enormous benefits from corporations that have unleashed significant innovative products and services which have enhanced our lives in many ways. In the field of medicine and healthcare, for example, new breakthroughs in treating cancers have allowed us to live longer and enjoy a better quality of life. If we embrace this philosophy, it doesn't matter how the "stock market" gyrates from day-to-day. What matters most is that we stay fully invested all the time.

We were recently speaking with the host of a local TV show. She mentioned her mother, who had been a child of the "Great Depression", and who was brought up with a scarcity mentality. Her mother instilled in her, "People should live frugally and not invest in stocks." It had been hard for her and many other children living at the time to escape from this mentality. She asked me if I had the formula to signal when to sell out of the stock market before it crashed. We told her predicting the market is like trying to predict what is in vogue in women's fashion; no one knows. There was a great story told, illustrating how women's fashion is impacted by the stock market. At the time it was coined as the "hemline theory" of stock prices. It was found in the book, The Economics of Fashion by Professor Paul Nystrom. He illustrated that just after WW1, the average level of a woman's dress above the ground was ten percent of a woman's height. Then, at the beginning of the Roaring 20s, it grew to 20%. The next few years hemlines continued their stellar ascent, rising to loftier levels until 1924¸ when Calvin Coolidge became President, as they hoisted to 25%! At that point, the hemlines met above the knee. They hung heavenly high until, tragically, the Great Stock Market Crash of 1929. The ensuing financial collapse and Depression caused them to significantly droop, finally sinking them to ground level.

Sadly, everyone is always trying to figure a way to predict the future. It doesn't work. Some investors mistakenly believe that Divine intervention will intercede on their behalf, praying some that cosmic Santa Claus will make their dreams come true. They use various types of lucky numbers and carry a rabbit's foot for good luck, hoping their prayers will be answered. Lately, I have even noticed some people thinking that buying lottery tickets on a regular basis is a great alternative and innovative form of investing that will transform their life. I remember what comedian George Carlin had said, "I put a dollar in a change machine, and nothing changed."

## HEMLINES – A FINANCIAL HOROSCOPE

If we look at the economy in the 20th century we see that the Hemline Index has proven itself as an economic indicator.

**The 1920s** -The twenties saw the highest stock prices in the early 19 hundreds until 1929. It was also a time of much shorter skirts than previous generations had every thought of wearing.

**The 1930s** – The Great Depression-era meant the worst economic conditions in America during the last 100 years. It also saw very long conservative skirts that went all the way to the ground.

**The 1940s and 1950s** – The forties and fifties was a time where the people and economy were recovering from World War II. While most people had a job they had sacrificed a lot for the war. This was mirrored in the skirt lengths of the women – they typically wore skirts that were about knee-high or a bit lower.

**The 1960s** – It was the time of huge economic growth that culminated with the invention of the mini skirt in 1965.

**The 1970s** – The seventies are best known by the Oil Crisis of 1973 and the stock market crash in 1974. Fashion-wise it also meant that wearing mini skirts was out.

**The 1980s** –A time of economic prosperity which brought shorter skirts and also power suits for women. The stock market crash known as Black Monday in 1987 also brought with it the lengthening of hemlines.

**The 1990s** – The first half of the nineties suffered greatly from the shock of the stock market crash in 1987 but during the second half of the 90s the economy started seeing extraordinary growth. It was accompanied by the retro mini skirts that quickly became fashionable.

**The 2000s** – 2008 saw the start of the biggest economic crisis seen since the Great Depression. Fashion experts agree that since then longer and bohemian style skirts have started to make a comeback.

The future is uncertain but maybe Jim Morrison needed a little hemline to become more positive about life!

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