

## Ten Years Ago...

**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Senior Economist

It's March 8, 2009. The market's down 56% from its all-time high, unemployment is over 8% and hurtling toward 10%, it's just been reported that real GDP dropped at a 6.2% annual rate in Q4 of 2008, and it feels like the world is coming to an end. You're tired, exhausted from living through this, and you fall into a deep sleep. So deep, in fact, that you don't wake up until today, 10 years later.

First thing you do is run to your computer and see the S&P 500 is up 305% since the bottom. You are blown away. No way this could be true! Things were so bad when you fell asleep. Little did you know the S&P 500 bottomed the next day.

So you run over to your friend's house and knock on the door. Your friend answers, wondering where you've been for 10 years! You ask what possibly could have happened to drive the stock market up more than 300%.

Your friend pulls out a list. Let's call them the "golden geese."

After-tax economy-wide corporate profits are at record highs, up 175% since the bottom, or around 11% annualized growth.

Then your friend tells you about Apple. When you fell asleep, Apple had been selling the iPhone for about a year and a half. Over that period, they sold a record-breaking 17.4 million of them. But since you've been asleep, Apple has sold about 1.3 billion of them. Every calendar quarter Apple sells about three times what it sold in that first year and a half.

Then there's Uber. Your friend tells you how you can press a button on a phone and a few minutes later a car will come by and, before you get in, you know who the driver is, his rating, how much it'll cost, and how long it will take to get to your destination. All cheaper than a taxi. It seems like science fiction!

You see unemployment is only 3.8% and think it's a typo, because when you fell asleep it was more than double that.

Your friend shows you a video of a self-driving semi-truck that Budweiser used to carry 51,744 cans of beer from Fort Collins, CO, to Colorado Springs,

CO. About 130 miles on I-25 with no driver! Now Amazon is deploying similar trucks.

But what may be most amazing is that there have been several years over the last 10 that the US has run a trade surplus with OPEC. You wonder how this can be since the US was in an energy crisis when you fell asleep. In fact, oil production had been on a declining trend for about 50 years. Your friend tells you it's all changed. Since you have been asleep, because of new technology, oil production has more than doubled, from about 5 million barrels per day to around 12.1 million barrels per day. In fact, the US is now the world's biggest oil producer. Bigger than Russia and Saudi Arabia! The state of Texas, by itself, just surpassed Iran to become the world's fifth biggest oil producer!

You continue through the list and are more and more blown away. It's been only 10 years and the world is completely different, for the better! You barely recognize it, so many things have happened that you wouldn't have even dreamt possible.

And notice, you have no idea who is President, what's been going on with interest rates, Quantitative Easing, China, or North Korea. You've never heard of "AOC" and you missed the whole Greek debt crisis. All you know about are these "golden geese." And that's all you need to know. The entrepreneur, alive and well, has continued to revolutionize the world over the past 10 years. That's what has been driving economic growth and the stock market.

Imagine where we will be 10 years from now. Our guess is that it will be better than you can think.

\*\*\*\*\*

As a side note, celebrating the 10-year anniversary of the current recovery and bull market is very satisfying to us.

We believed the Panic of 2008 was made significantly worse (trillions of dollars worse) than it needed to be because of overly strict mark-to-market accounting. Forcing banks and other financial institutions to write the value of assets down to fire sale

prices based on frozen markets put the whole financial system at risk.

No amount of money from the Federal Government would have ever stopped it. Private investors stopped investing in banks. Markets stopped trading. All because assets were being written down well below the amount of cash they generated.

Quantitative Easing and TARP were both unnecessary, and useless. QE was started in September of 2008 and TARP was passed in October. During the next five months, the S&P 500 fell an additional 47% and financial stocks declined 70%. There is no evidence (unless you value self-proclaimed victories) that either worked.

The market turned on March 9, 2009, when the House of Representatives decided to push the Financial Accounting Standards Board to reverse the damaging mark-to-market rules. The change wasn't made until April 2009, but the market knew it was coming. The change allowed banks to use cash flows to value investments. And guess what, private investors came back. They invested in banks and other equities and that was the turning point.

While government will tell you that it saved the economy, it didn't. Once mark-to-market accounting

rules returned to the way they were from the late 1930s through 2007, the economy could recover. And that's exactly what it did. This recovery and the bull market are based on entrepreneurship. It's not – and never was – a Sugar High.

TARP would have never been enough to save the system because assets would have continued to be marked down. And QE was unnecessary because the problem wasn't due to a lack of money in the system.

Some members of the Federal Reserve try to compare 2008/09 to the Great Depression, and argue Milton Friedman would have wanted QE. But in the Great Depression, the money supply was declining. It never declined in 2007 or through September 2008, when QE was started. The problems in the system were capital problems, not liquidity problems.

In fact, it is our belief that without those overly strict mark-to market accounting rules, Bear Stearns, Lehman Brothers, WAMU and Wachovia would never had needed to go under.

Thank goodness the rules were changed, allowing the free market and entrepreneurship to once again work the magic that has transformed this great country since its start.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-11 / 7:30 am	Retail Sales – Jan	0.0%	<b>+0.3%</b>	<b>+0.2%</b>	-1.6%
7:30 am	Retail Sales Ex-Auto – Jan	+0.2%	<b>+0.1%</b>	<b>+0.9%</b>	-2.1%
9:00 am	Business Inventories – Dec	+0.6%	<b>+0.6%</b>	<b>+0.6%</b>	0.0%
3-12 / 7:30 am	CPI – Feb	+0.2%	<b>+0.2%</b>		0.0%
7:30 am	“Core” CPI – Feb	+0.2%	<b>+0.2%</b>		+0.2%
3-13 / 7:30 am	Durable Goods – Jan	-0.5%	<b>-0.7%</b>		+1.2%
7:30 am	Durable Goods (Ex-Trans) – Jan	+0.1%	<b>+0.2%</b>		+0.1%
7:30 am	PPI – Feb	+0.2%	<b>+0.2%</b>		-0.1%
7:30 am	“Core” PPI – Feb	+0.2%	<b>+0.1%</b>		+0.3%
9:00 am	Construction Spending – Jan	+0.4%	<b>+1.0%</b>		-0.6%
3-14 / 7:30 am	Initial Claims – Mar 9	225K	<b>225K</b>		223K
7:30 am	Import Prices – Feb	+0.3%	<b>+0.3%</b>		-0.5%
7:30 am	Export Prices – Feb	+0.1%	<b>+0.3%</b>		-0.6%
9:00 am	New Home Sales – Jan	0.622 Mil	<b>0.620 Mil</b>		0.621 Mil
3-15 / 7:30 am	Empire State Mfg Survey - Mar	10.0	<b>14.1</b>		8.8
8:15 am	Industrial Production – Feb	+0.4%	<b>+0.3%</b>		-0.6%
8:15 am	Capacity Utilization – Feb	78.5%	<b>78.4%</b>		78.2%
9:00 am	U. Mich Consumer Sentiment- Mar	95.6	<b>94.3</b>		93.8