

Financial Markets History | Spring 2019



THE OWL FUND

Agenda

I

Risk & Return, Market Dynamics

II

Exchanges & Trading

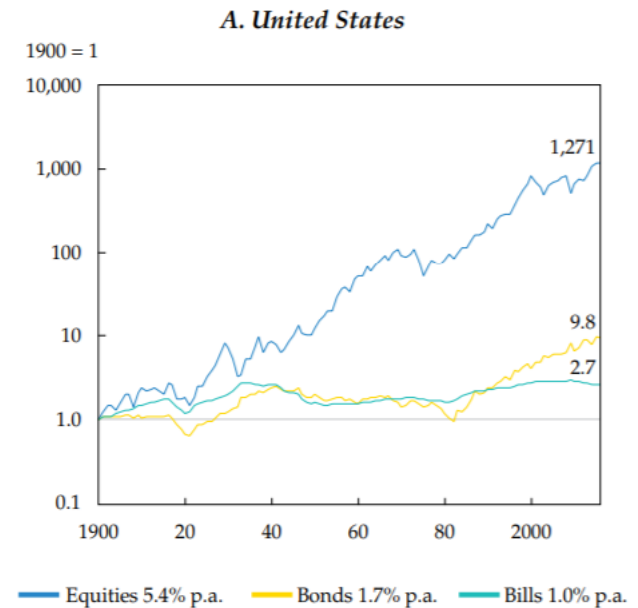
III

Stock Market Bubbles

Long-Run Market Dynamics

Risk and Return Since 1900

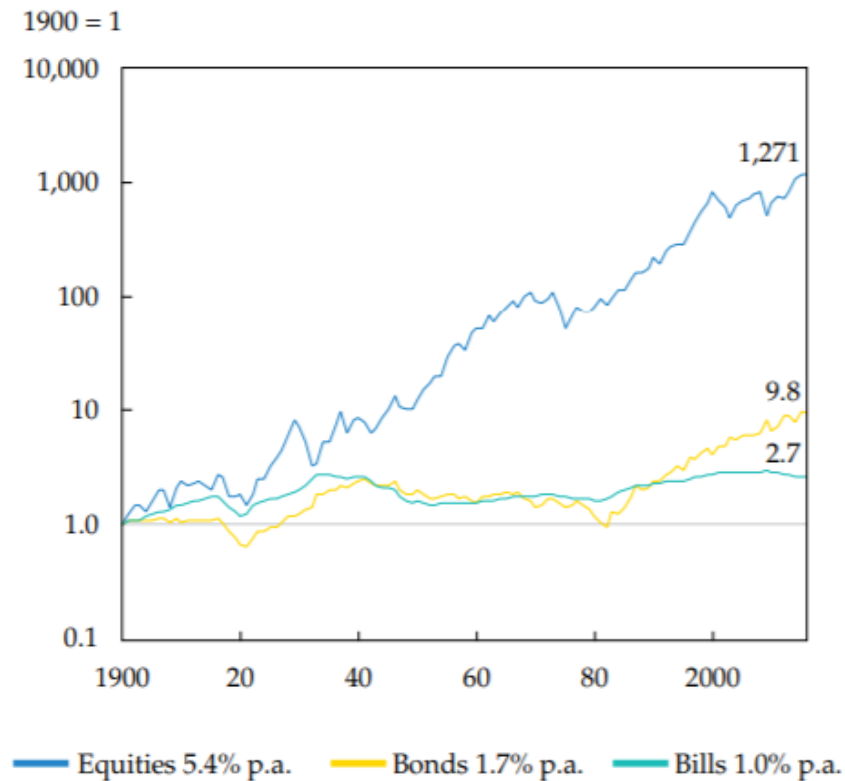
- Equities have clobbered fixed income securities in performance
 - Bonds (129.7x)
 - Bills (470.7x)
- *Recorded in local currency, inflation-adjusted, dividends reinvested
- Is the U.S. representative?
 - Make sure to avoid success bias



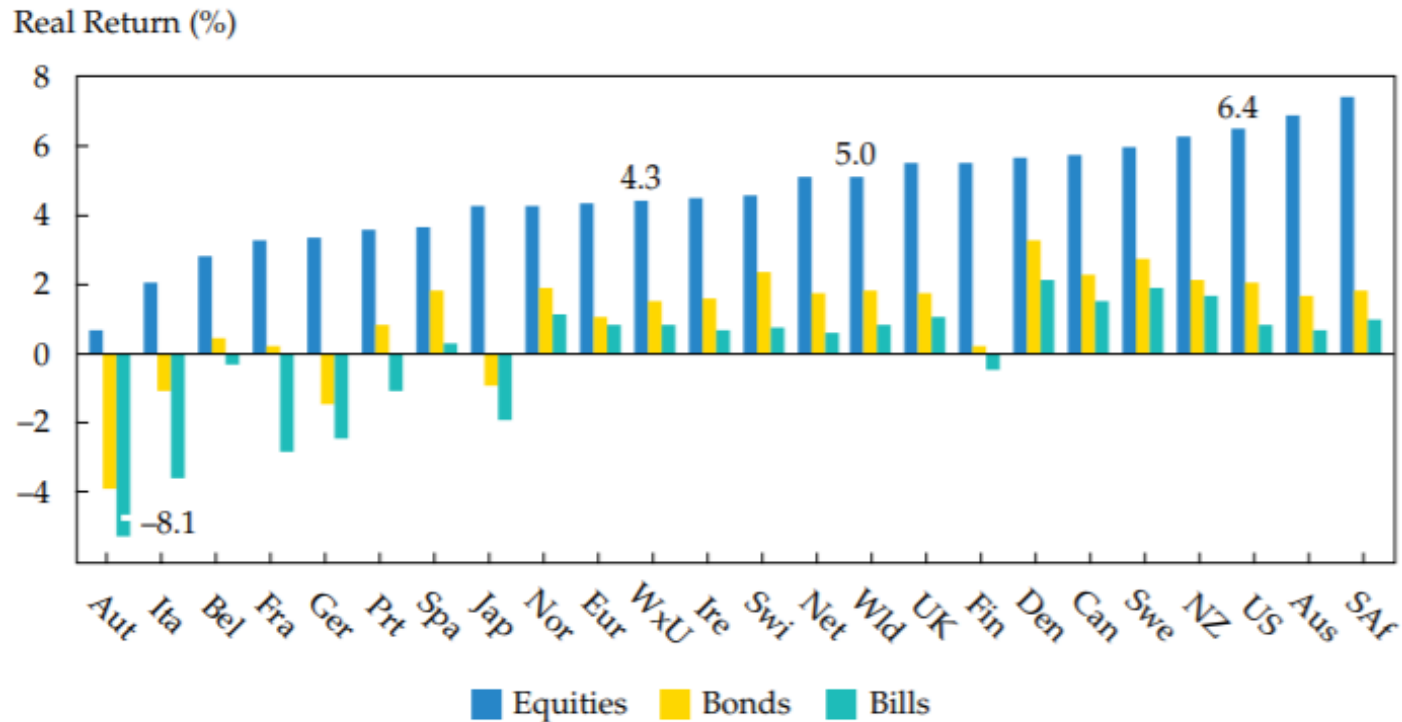


Long-Run Market Dynamics

A. United States



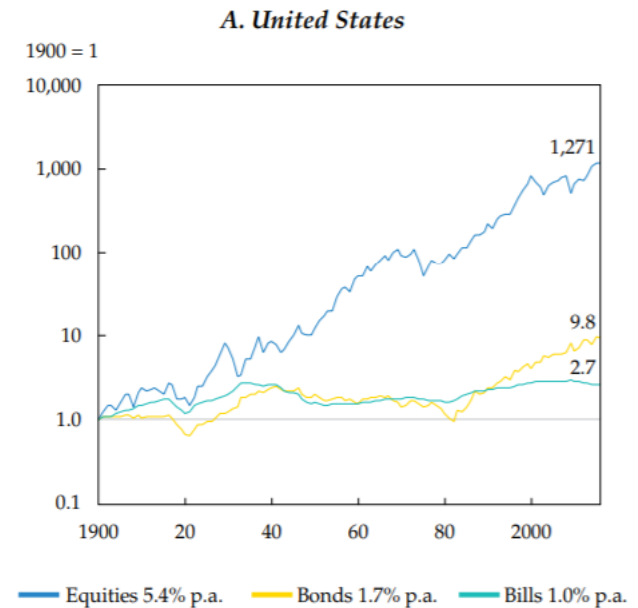
Long-Run Market Dynamics



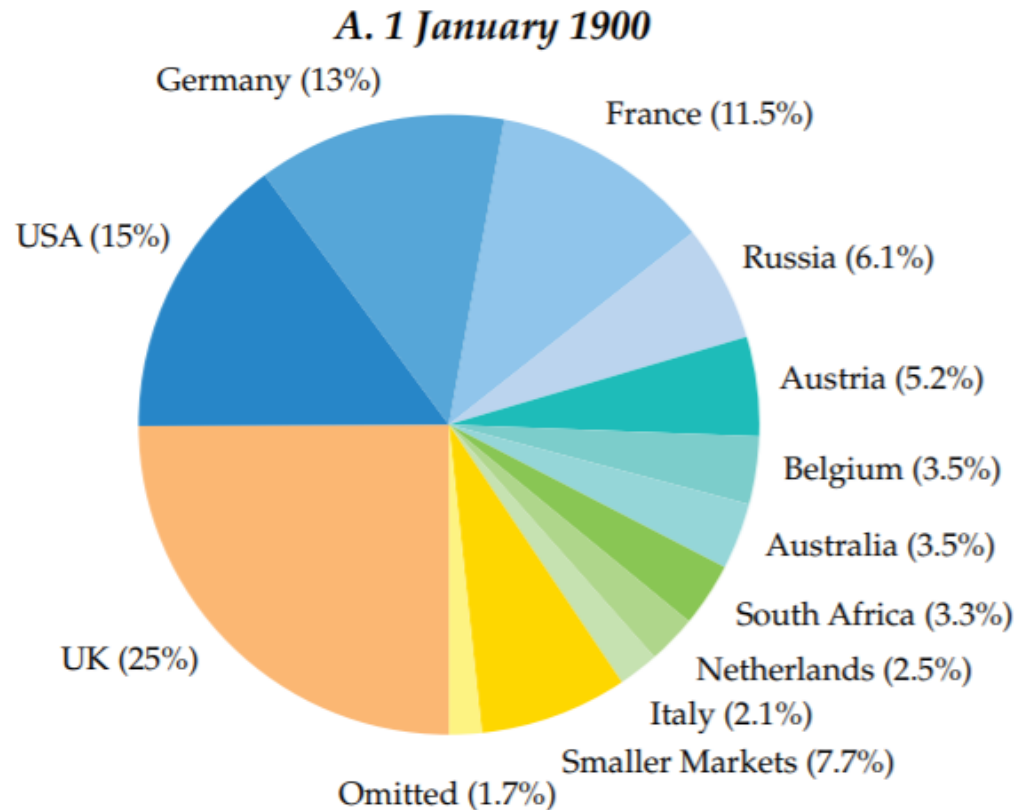
Long-Run Market Dynamics

What Happened?

- Massive population, international impact, and economic growth in the U.S.
- “The Great Transformation”
 - Technology of all kinds
 - Telecommunication, medicine, etc.
- This equity performance is unusual
- Let’s take a closer look

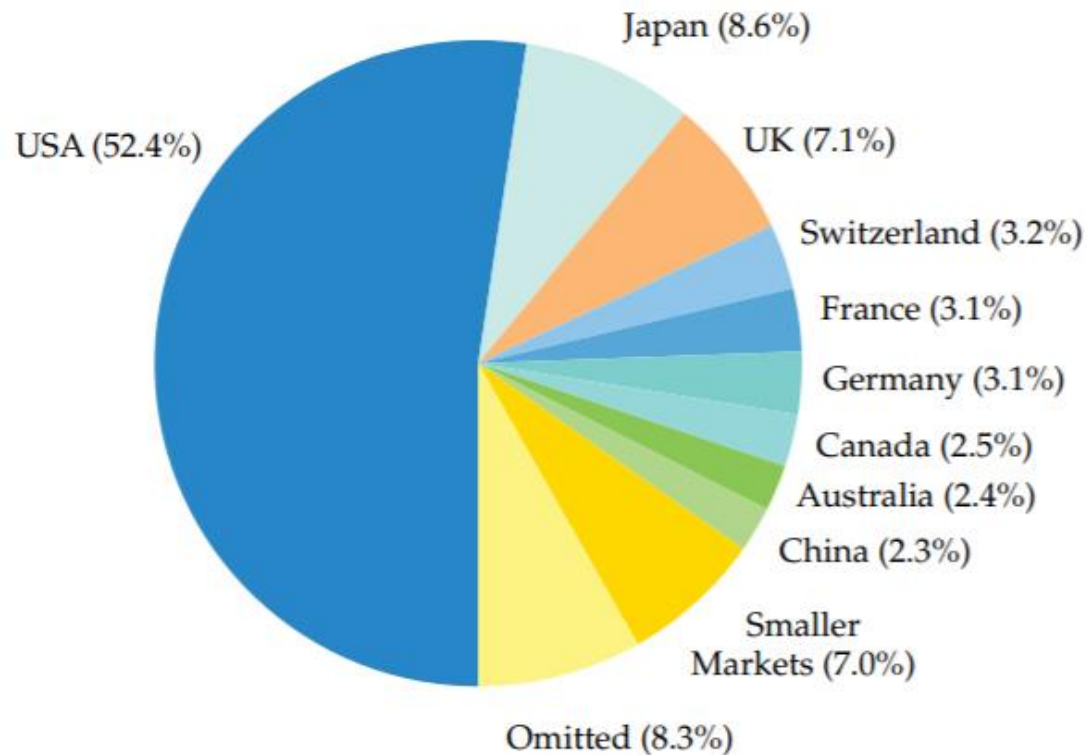


Long-Run Market Dynamics



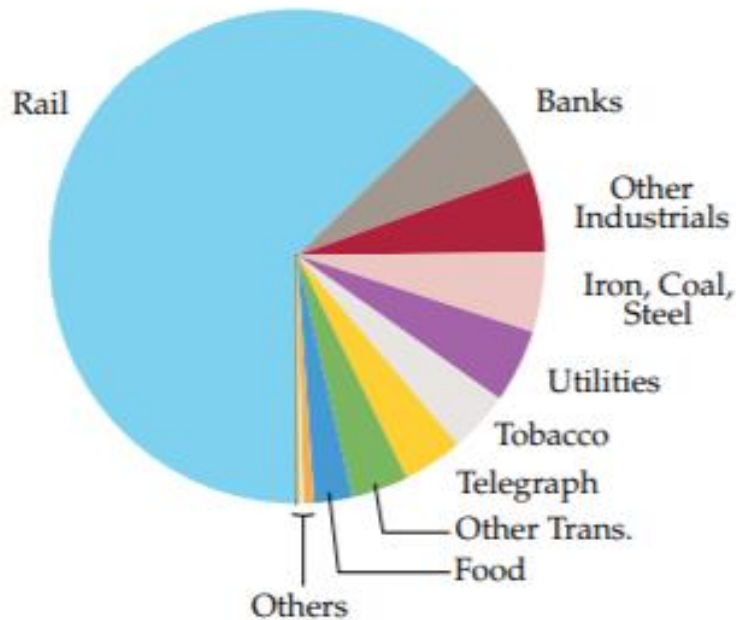
Long-Run Market Dynamics

B. 1 January 2016

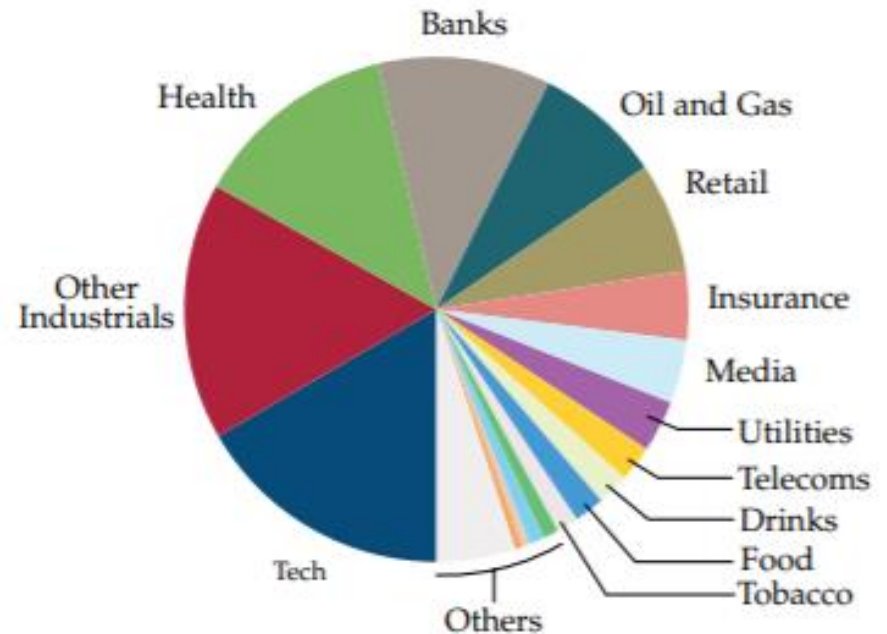


Long-Run Market Dynamics

A. 1900 United States



C. 2015 United States



Financial Market History

Okay, Let's Talk History

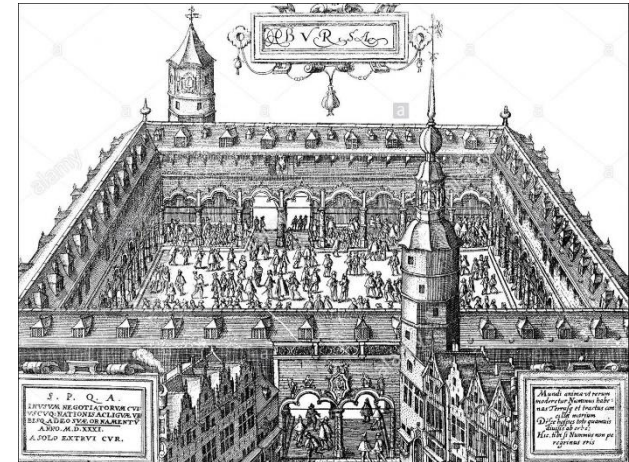
- Bartering made up all asset transactions until Lydia minted coins in ~600 BCE
- ~400 BCE → consumers purchase agriculture and other goods in markets
- ~200 BCE → Romans begin trading currencies in Ostia
- The dark ages stamp out financial development, and Europe doesn't see its first organized markets until ~1200 CE



Financial Market History

“Markets” Become “Exchanges”

- 1393 → La Lonja establishes brokers
 - “whose job was to listen, report, and put interested parties in touch”
- ~1400 → Stora Kopperberg, etc.
- 1531 → Antwerp Exchange
- 1602 → shares of the first publicly-traded company cross exchange floors
- Trivia!



Financial Market History



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What was the world's first publicly-traded company?

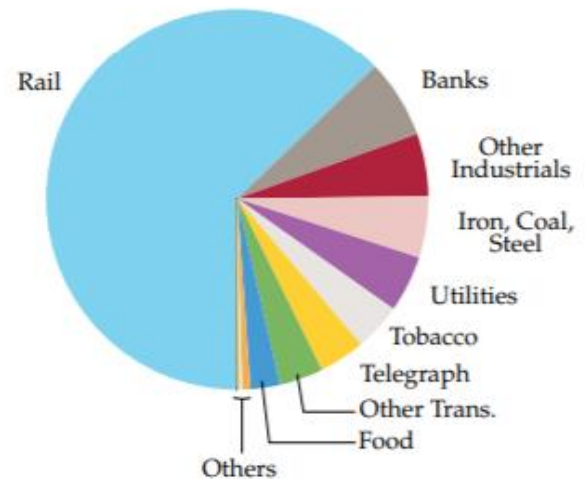
Vereinigste Oostindische Compagnie (VOC)
aka. The Dutch East India Company

Financial Market History

Exchanges Legitimize

- ~1700 → Exchanges continue to grow
- 1789 → French Revolution
- 1792 → Buttonwood Agreement
- 1801 → LSE founded
- ~1830+ → railroads take over
 - Huge for the corporate bond industry

A. 1900 United States



Historical Market Bubbles

Bubbles Overview

- Substantial growth followed by substantial decline in asset prices
- Bubbles get too much attention
 - 0.3% to 1.4% of all yearly returns
 - 100% price boom stats
- Media & investor hyper-focus misguides both investment decisions and policy
- With that said, let's talk bubbles



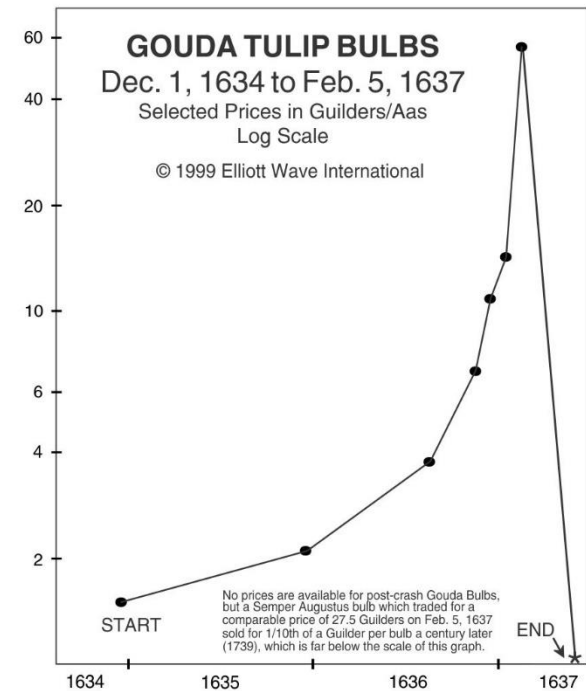
Historical Market Bubbles



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Tulip Bubble

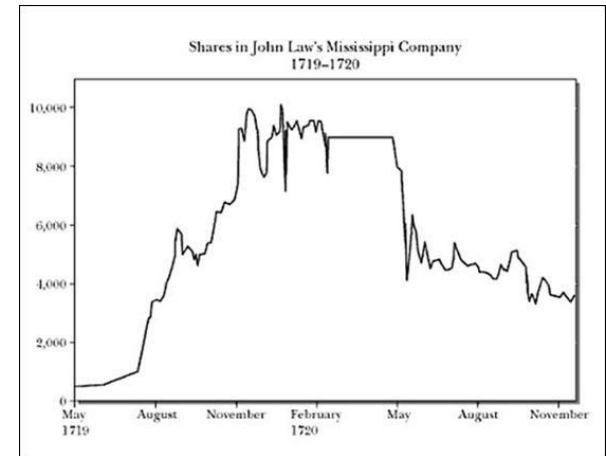
- Introduction of the tulip to Europe coincided w/ Holland's trade fortunes
- Rapidly became a luxury item
- 1636 → Holland's third leading export
- Prices collapsed in tandem with the rising prevalence of Bubonic Plague
- Interesting side-note → tulips are responsible for the first futures trading



Historical Market Bubbles

Mississippi Bubble

- 1716 → *Banque Generale* purchases Mississippi Co., rights to West Indies
- Monopolized all international trade
- Louis XIV → John Law
- Shares were so immensely popular, the bank issued notes to finance purchases
- Rampant inflation followed, ending in financial disaster

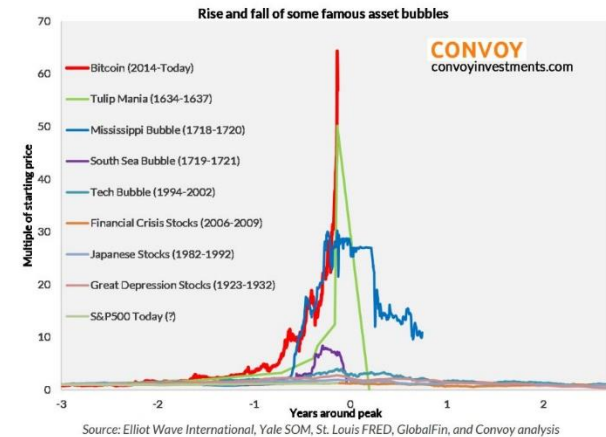




Historical Market Bubbles

Other Interesting Bubbles

- ~1720 → South Sea Bubble
- ~1840 → British Railroads
- ~1928 → Great Depression
- ~1980 → Oil Crisis/Global Bubble
- ~1989 → U.S. Housing
- ~1991 → Japanese Nikkei
- ~2000 → Dot Com
- ~2007 → U.S. Housing



Historical Market Bubbles

In Conclusion

- Bubbles occur when pricing is more reliant on demand than intrinsic value
- How to not get caught in a bubble?
- Valuation!
 - Understand intrinsic value
 - **Never** base purchasing decisions on:
 - Past price appreciation
 - Projected retail investor demand



Thanks for Coming!



Questions?