

## 25 YEARS AGO: A TEACHABLE MOMENT

Today marks a most significant anniversary in the economic and financial history of the United States, and we could not let it pass without comment. When properly appreciated, it can serve as an importantly teachable moment.

For it was a quarter century ago, on the night of Thursday, December 5, 1996, that the iconic Federal Reserve chairman Alan Greenspan, speaking at a dinner of the American Enterprise Institute in Washington, gave his instantly legendary “irrational exuberance” speech.

And this is what the oracle said. Or more accurately, this is what he asked:

“How do we know when *irrational exuberance* has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade? And how do we factor that assessment into monetary policy?”

Mr. Greenspan asked these twin rhetorical questions essentially because he did not have conclusive answers. And if he didn't, you knew no one else in the world did either. But coming from him, even this interrogative form of thinking out

loud was a financial thunderbolt—a shot heard round the world.

He surely understood that, when he so much as broached the question, he had at least suggested an answer. And that answer was unmistakably: we're either already there, or will be mighty soon, as this greatest of all bull markets morphs into mania.

We thought it might be instructive—as well as a certain amount of good fun—to cast an eye over the intervening quarter century. Let's begin with a key item of baseline data that may and certainly should inform our inquiry.

**FACT:** The Standard & Poor's 500-Stock Index had closed that Thursday afternoon, in blissful ignorance of what was coming later in the evening, at 744.38. And sure enough—just as the oracle had darkly suggested it must—the S&P 500 topped out...three years, three months and 19 days later, on March 24, 2000, at 1,527.50. You read that right: it more than doubled in the 40 months after Greenspan's dire warning.

We suppose we could just stop here, invite you to draw the obvious inference from the above, and call it a day. Said inference is, of course: ***No one—no central banker, no economist, no market strategist, no hedge fund manager—no one can predict the***

***market, much less tell you where to get out and/or back in. The economy cannot be consistently forecast, nor the market consistently timed. By anyone.***

But before we let you go, we'd just like to throw out a very few other potentially relevant factoids.

- On December 3, the S&P 500 closed at 4538.43, ***up more than six times since Greenspan spoke.***

- With dividends reinvested, and any taxes paid from some other source, \$10,000 invested in the S&P 500 on 12/4/96 is getting ***pretty close to \$100,000*** along about now.

- The earnings of the S&P 500 for the year 1996 were \$40.63. With less than a month to go in the current year, the consensus forecast is around \$200, ***up almost exactly five times.***

- The S&P 500's cash dividend in 1996 was \$14.90. Consensus forecast for this year is about \$60, ***up almost exactly four times.***

- The Consumer Price Index was 158.6 in December 1996. It will most likely close out this year around 280, ***up a mere 1.8 times.***

What, then, was the single best financial decision you could have made

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*Wishing you  
and your  
families a  
Happy Holiday  
and Blessed  
2022!*

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*(continued)*

on Thursday night, December 5, 1996—when the 11 o'clock news breathlessly reported Greenspan's electrifying remarks? Right: **turn off the TV and go to bed.**

Just our opinion, of course, but the best move you can make this morning, 25 years on, regardless of the headlines? The same: turn off the TV, log out of your computer. Enjoy the rest of your day.

And let the compounding proceed, uninterrupted.

Sources: Historical S&P 500 Index and dividends: "S&P 500 Earnings History, NYU Stern School." Consensus 2021 earnings forecast: Yardeni Research. Consensus 2021 dividend forecast: Bloomberg. Consumer Price Index:

Inflationdata.com. Current net profit margin of the S&P 500: FactSet.

**HOLIDAY CLOSURES:  
CLOSING EARLY ~ DECEMBER 23RD  
CLOSED ~ DECEMBER 24TH  
CLOSING EARLY ~ DECEMBER 31ST**