



**LET'S TALK ABOUT...**

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## **Towards 1929**

In the XVIII-XIX Centuries' speculative bubbles we recently reviewed, besides some common items such as appealing innovations, smart and more or less unrestrained promoters, the mirage of easy and fast returns for mass investors, the use of leverage appears as more and more widely used, that is the trend of borrowing in order to increase prospective gains through the expected positive spread between the yield of the enterprise and the cost of debt. Another recurring feature, unfortunately being not limited to those times, is the astonishing ease the markets show in forgetting what happened just a few years or decades before, thus reproducing similar conditions in a cyclical way, with pretty similar outcomes, for the good and the bad. And this relation between speculative bubbles and financial-economic cycles will be soon considered in detail. The leverage factor becomes more and more relevant when investment and speculation turn to the real estate and then the equity markets. In such environments leverage rises to become a miraculous, almost magical, instrument in order to amplify returns, generate growth and prosperity, of course that being the case as long as trends evolve in the positive expected way.

The financial path that was to lead to the dramatic events of October 1929 originate from the American property boom after the end of WW1, the scenario of endless prosperity and optimism it induced, thus causing a wide resort to borrowing and the beginning of diffused practices in financial engineering, the new sophisticated starring force of Wall Street since then, which was to make financial markets alluring, and potentially affordable, for wider categories of investors. However the financial environment in those days is also marked by actual cheats, such as the Ponzi schemes: they too were to take place, again and again, through the next decades, until today, so proving how weak and short the market's memory is, as well as the one of its actors. - *GLT*

The views expressed are not necessarily those of the Swiss Association of Asset Managers

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