

Apr 17, 2020,02:51pm EDT

Stock Market Crash: Party Like It's 1929



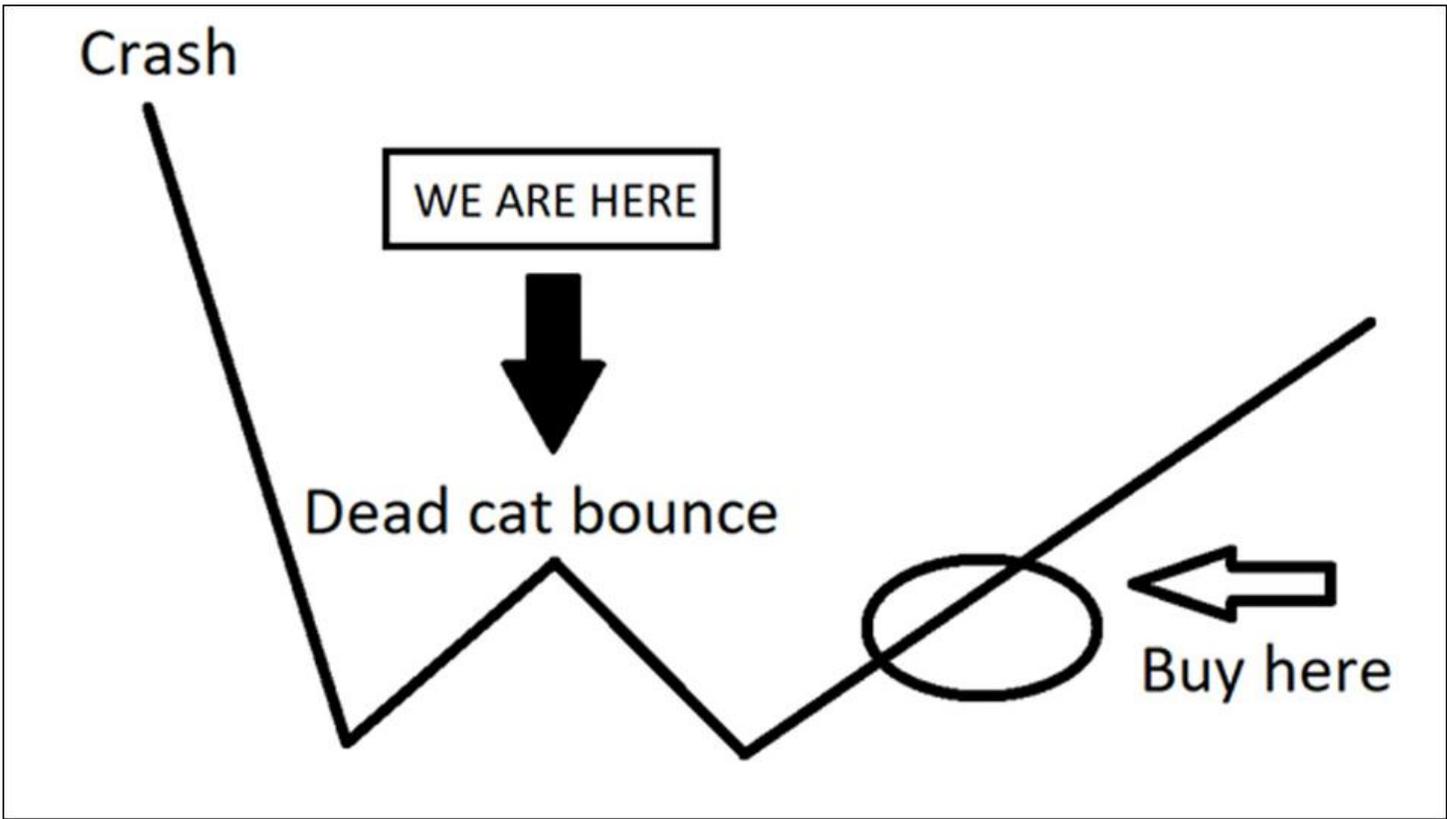
Intelligent Investing
Investing



(Photo by Raphael Knipping) PICTURE ALLIANCE VIA GETTY IMAGES

If you look at the U.S. equity charts you would be forgiven for thinking that this coronavirus crash is all over.

It's possible. Only a fool discounts possibilities in the markets. However, in my mind the key call is not "is it over," but "is it one of these two scenarios?"



Where are we in the crash? This is option 1. CREDIT: ADVFN

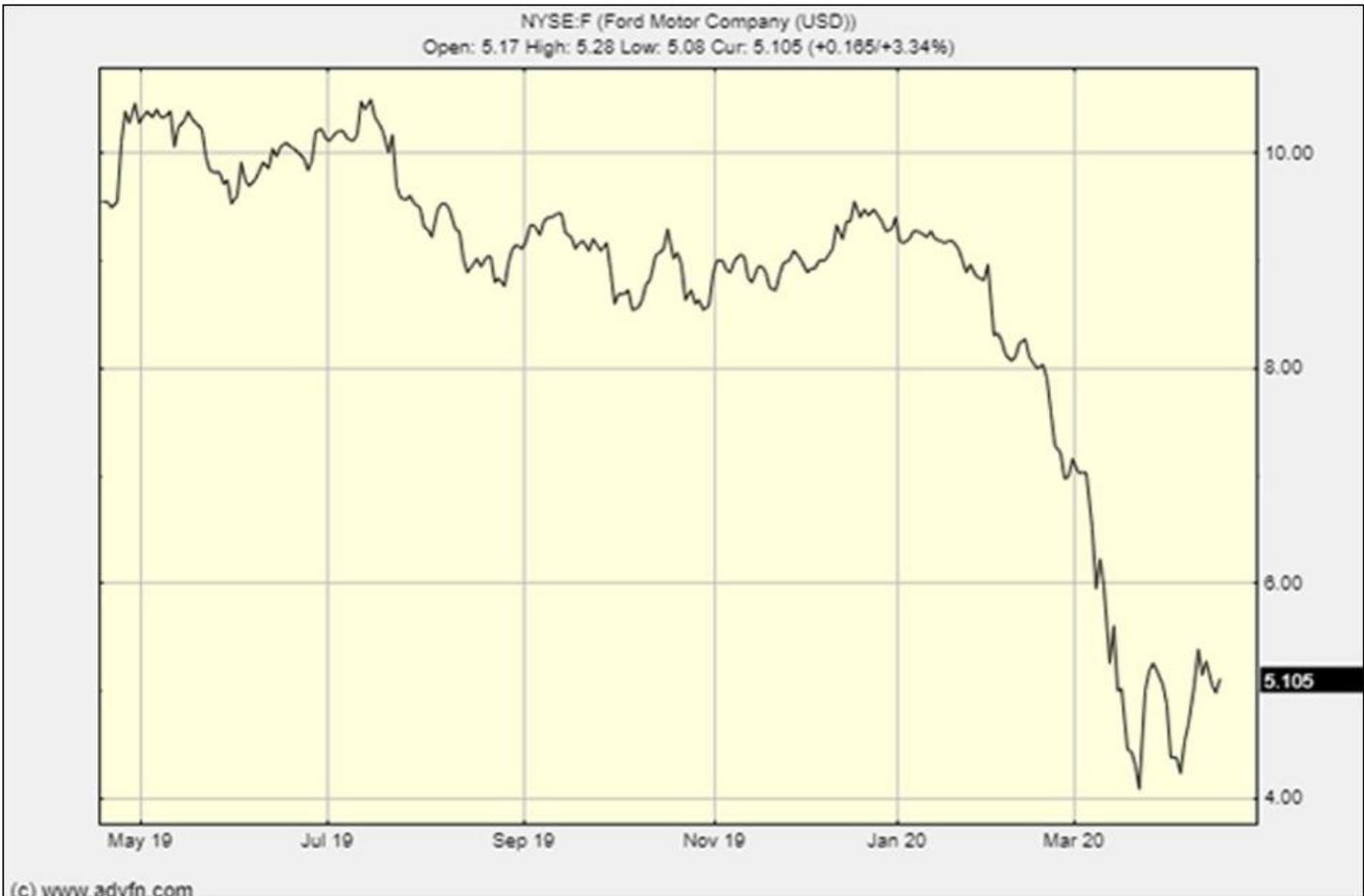
Or we are here:



Where are we in the crash? This is option 2. CREDIT: ADVFN

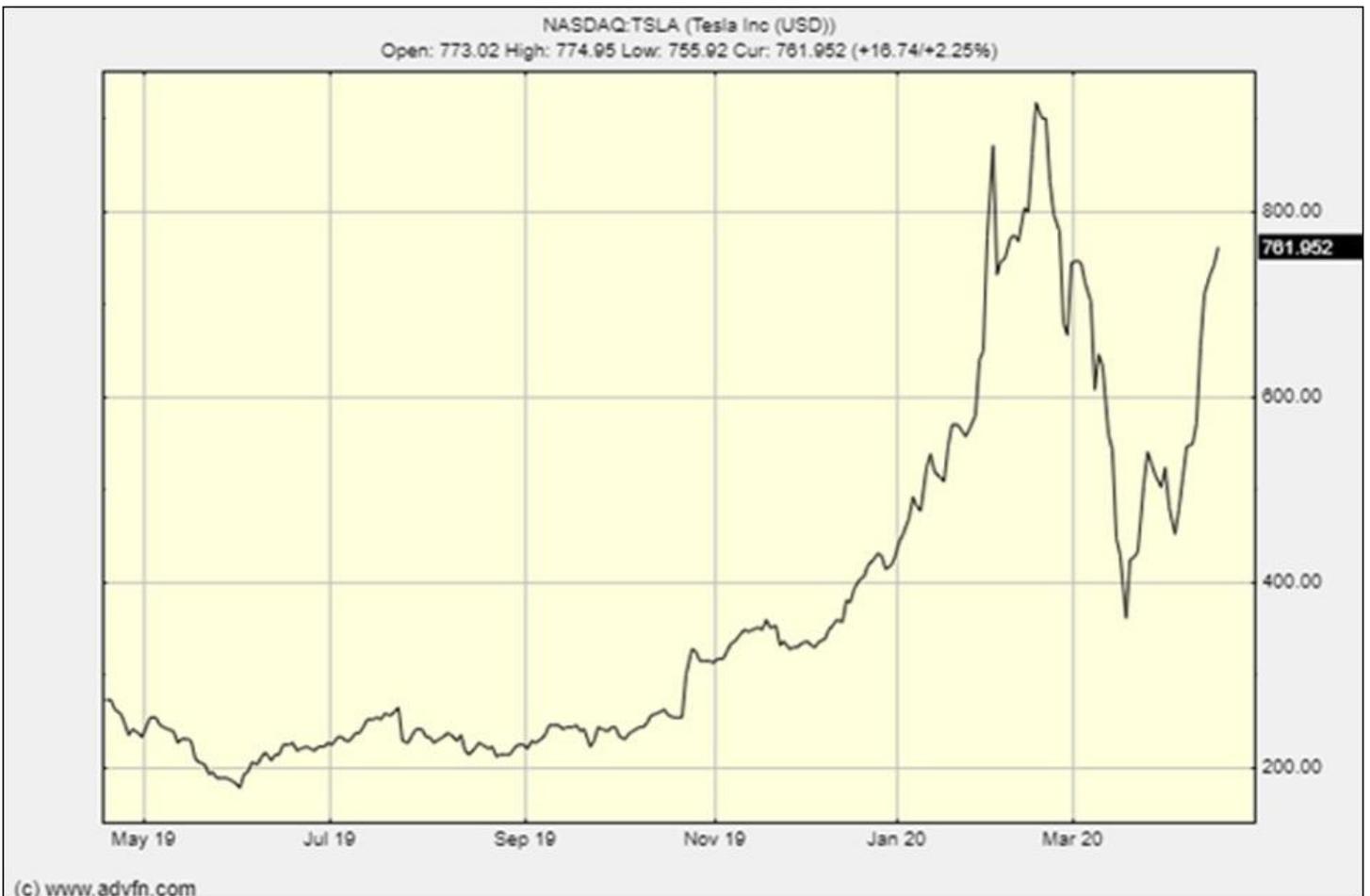
I believe we are here and I am now back into 100% cash, having bagged a nice 20% profit, by dicing with the crash. I am passing on the upside for now because however I twist myself up into a ball I cannot make sense of the bounce except to put it down to a market corner by the Federal Reserve or hopeless optimism by a generation of participants that can't countenance a 1930's style depression.

Ironically, if stocks all looked like Ford, I could be comfortable with being at the bottom.



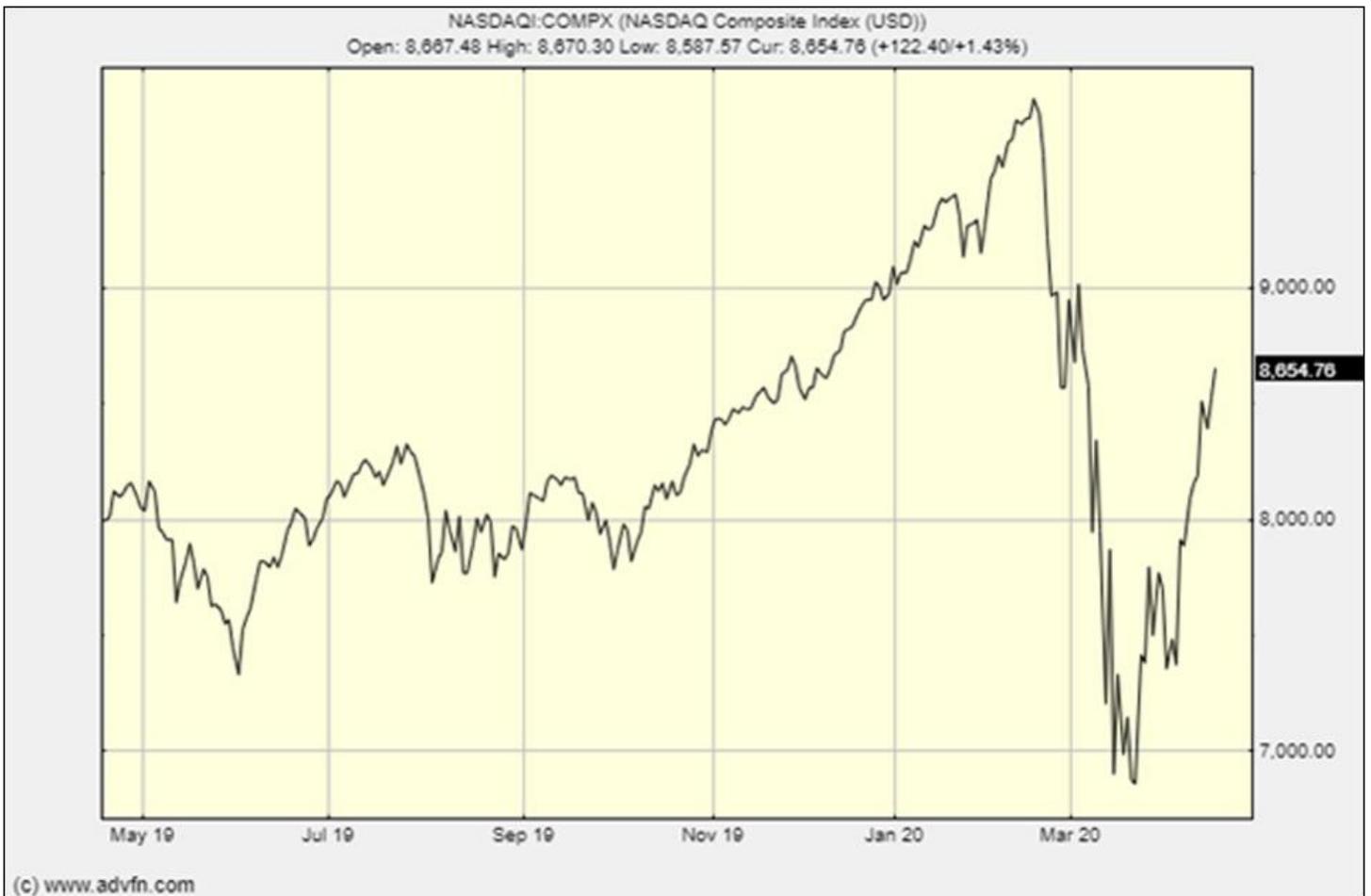
If only all stocks looked like Ford... CREDIT: ADVFN

But the market is behaving more like Tesla:



The market is less like Ford, more like Tesla CREDIT: ADVFN

I want it to be real, but I can't make any reasonable narrative or calculation to make this seem anything but insane. Forgetting Mr. Musk's good fortune, here is the Nasdaq:



The Nasdaq thinks everything is fine CREDIT: ADVFN

In summary, the Nasdaq is telling us the world is more favorable to it now than it was just last Christmas. How or what could that possibly be?

Well, it is the stimulus, a wall of money gushing into equities. QE drives stocks for sure and this is what is doing this.

So we are dealing with a “market corner” from the Federal Reserve and its minions. I’m grateful, it has just made me a fairly decent amount of money. We should all be grateful because without a bailout the misery would be soon, acute and extreme.

However, can the Fed beat the market indefinitely? Can it hold the market aloft for 2-3 years while things repair? We are in the uncharted territory of QE “infinity” and somehow it must avoid high inflation and dramatic deflation all the while masking the classic response to the level of calamity.

That is an incredible task. This make sense, in a terrible way.

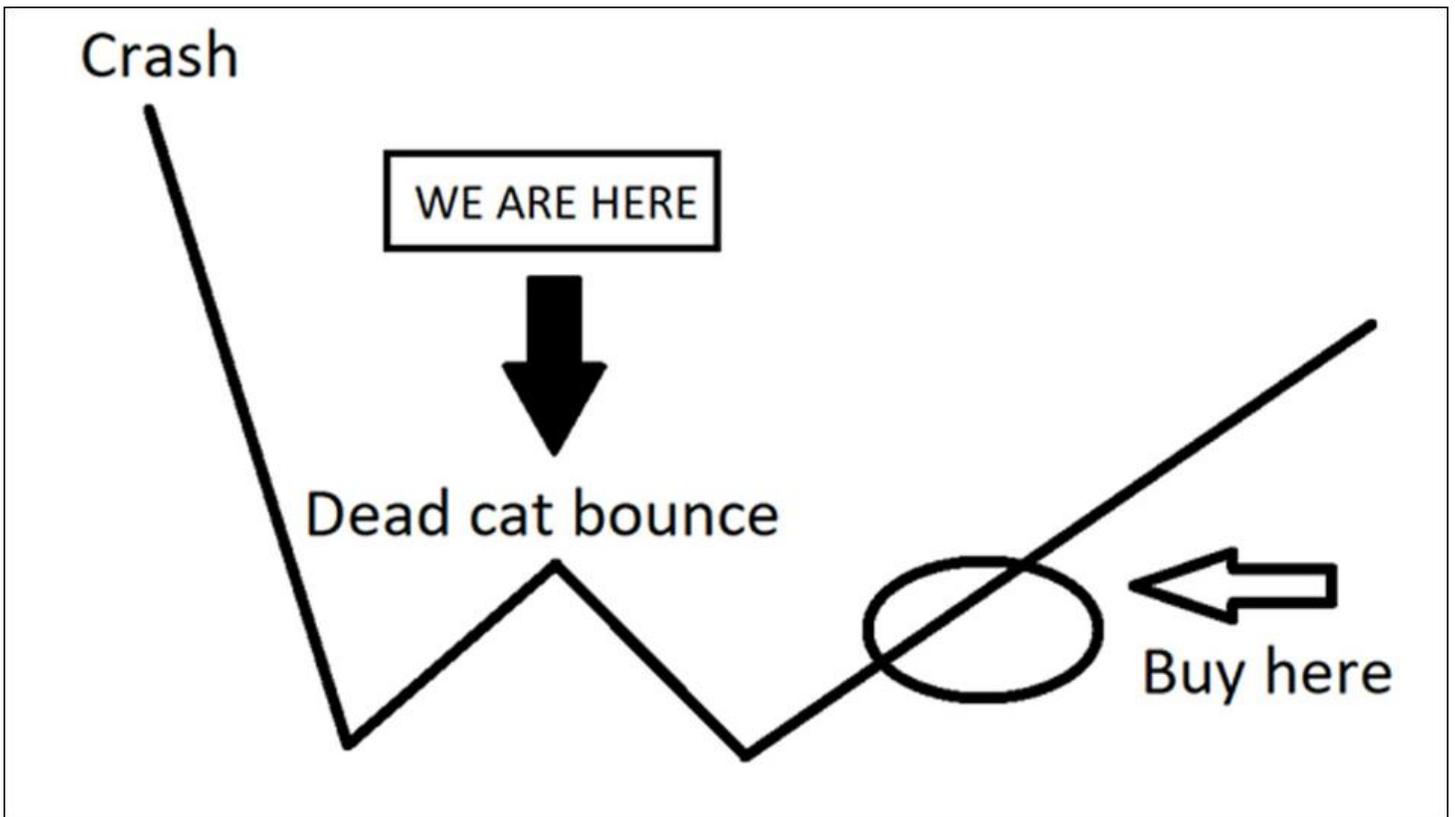


Uncharted territory CREDIT: ADVFN

This is why I am 100% cash again. V shaped bottom? It is possible, but the W is much more likely. Even the crash of 1929 tried one. Are we in line for a massive 1929 crash? No one should bet against it until they have lots of real post stimulus evidence that the worse is over.

The upside is now limited and the downside has catastrophic potential, so anyone betting their financial future on this dire financial situation ending fast should be ultra-sure of themselves.

I went back in early but I'm back on this plan.



Returning to this plan CREDIT: ADVFN

But it will be tricky to buy the last leg because in a 1929 situation it will start to fall away again leaving the investor caught at the beginning of a long drop and in a difficult position to extricate themselves from.

It will need more than the current crisis to create the unfolding of this nightmare scenario; it will need a second blow. That could be a second lockdown; it could come from the consequences of the world economy taking a blow to its collective temple; it could be caused by the consequences of these trillions and zillions of NMT new money and an economic shipwreck on the uncharted hazards of these new economic horizons.

May is the first crunch point. If Europe and the U.S. make major strides to unlock in May, then all is not lost. It's looking nail-bitingly close because you can hardly blame politicians for wanting to stretch the lockdowns out to a point of certainty that in effect will be too far from now to save their economies from a chronic economic debacle.

So this is the setup:

1) If the lockups are handled well we will see the W bottom.

2) If the lockups are botched we will see a 1929 scenario.

3) If we get a V bottom the central banks of this world have cracked the economic code and free markets as we know them are a thing of the past.

I'll be watching for number 1 and number 2 because I'm not putting my capital at risk on the basis of relying on the genius of central bankers.

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Clem Chambers is the CEO of private investors website ADVFN.com and author of 101 Ways to Pick Stock Market Winners and [Trading Cryptocurrencies: A Beginner's Guide](#).

Chambers won Journalist of the Year in the Business Market Commentary category in the State Street U.K. Institutional Press Awards in 2018.

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