CFA Institute Research & Policy Center

Interview with Mark Higgins, CFA – Implications from U.S. Financial History

Mark J. Higgins, CFA, CFP®
Author of Investing in U.S. Financial History &
Senior Vice President, IFA Institutional

Phoebe Chan, Capital Markets Policy Specialist, APAC, Advocacy, CFA Institute

Housekeeping

- Today's webinar is scheduled for 60 minutes including Q&A.
- All participants are muted throughout the webinar.
- We welcome comments via the Chat button and questions via the Q&A button on your screen.
- This webinar will be recorded and uploaded onto CFA Institute Research & Policy Center and Asia-Pacific Research Exchange alongside the main presentation.

KEYNOTE PRESENTATION

Mark J. Higgins, CFA, CFP®

Author of Investing in U.S. Financial History &
Senior Vice President, Index Fund Advisors Institutional

IMPLICATIONS FROM FINANCIAL HISTORY

A Presentation for
CFA Institute Research & Policy Center

Speakers

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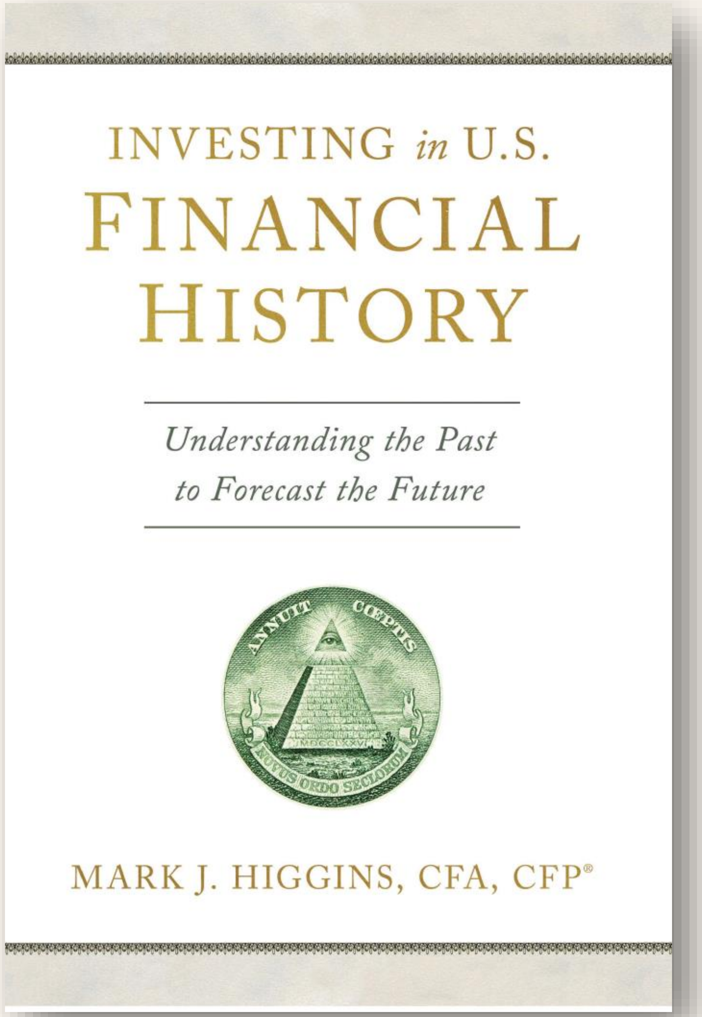
Phoebe Chan
Capital Market Policy Analyst, CFA Institute



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Agenda

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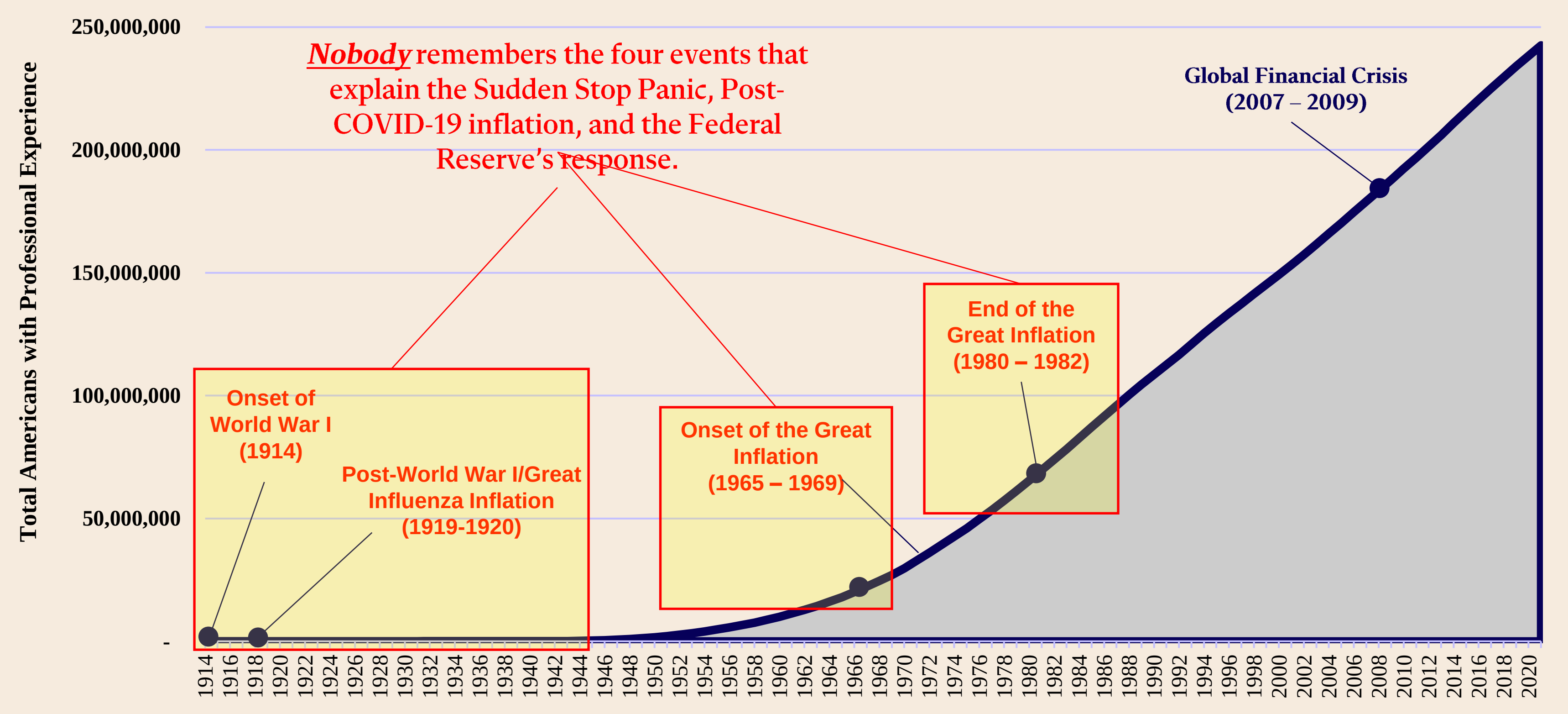
Why I Write Investing in U.S. Financial History?

- In March 2020, I was advising trustees of institutional investment plans as an investment consultant.
- The COVID-19 pandemic seemed completely unprecedented and caught me off-guard.
- I began reading financial history to make sense of it, and soon discovered that similar events in the past provided a much clearer understanding of the potential outcomes.
- As I read more, I further discovered that nearly every financial event that we experience had at least one insightful comparable in the past.
- Over time, I began relying much more heavily on financial history than current events to advise trustees.
- I also lamented that there was a desperate need for a book to document the financial history of the United States in way that was accessible – I decided to take a shot at writing it.

Case Study: Placing COVID-19 into Context

Total Living U.S. Witnesses to Financial Events Relevant to the COVID-19 Crisis



Note: The number of living witnesses includes all Americans living today who were at least 22 years-old during the year in which an event occurred. For example, there are currently approximately 150 million Americans who were at least 22 years-old during the Dot-Com Mania of 1999.

Source: U.S. Census Bureau

A Familiar Sentiment in Late 1919

"According to the reports on business conditions in this district…apparently ***few years opened with brighter prospects than 1920****. Labor was fully employed at the highest wages probably ever known, manufacturing plants were being operated at the greatest possible limit, supplies of goods were small, prices were continually advancing, the public was buying lavishly, and it was generally reported that goods were being consumed as fast as produced…These conditions, which had been developing for some months undoubtedly fostered buying and speculation in all kinds of commodities."*

—RICHARD L. AUSTIN, chairman and federal reserve agent of the Federal Reserve Bank of Philadelphia

Using Financial History to Envision the Future

Getting Inside the Heads of the Federal Reserve Leadership

A Post-COVID Recovery is Unlikely to Resemble the Roaring 20s; The Years 1919 and 1999 Serve as More Insightful Comparisons
(May 2, 2021) - SSRN

The Federal Reserve's Dovish Days are Suspended: Investors Should Brace Hard for the Hawk
(February 5, 2022) - SSRN

The Federal Reserve is not Bluffing
(June 9, 2022) - SSRN

The Siren Song of a Soft Landing is Growing Louder
(October 31, 2023) - Newsletter

The Federal Reserve is Playing a Dangerously Dovish Game
(Late December 2023) – LinkedIn Post

Jan 2021 **Jan 2022** **Jan 2023** **Jan 2024**

Placing Phases of Economic Development in Context

> *"China's experiences (both good and bad, joyful and painful, successful and failed) show that correct procedures of development, and proper industrial policies and strategies of development based on a nation's own initial social-political conditions matter…they matter not only for individuals' welfare, but also for a nation's survival, dignity , and destiny."*
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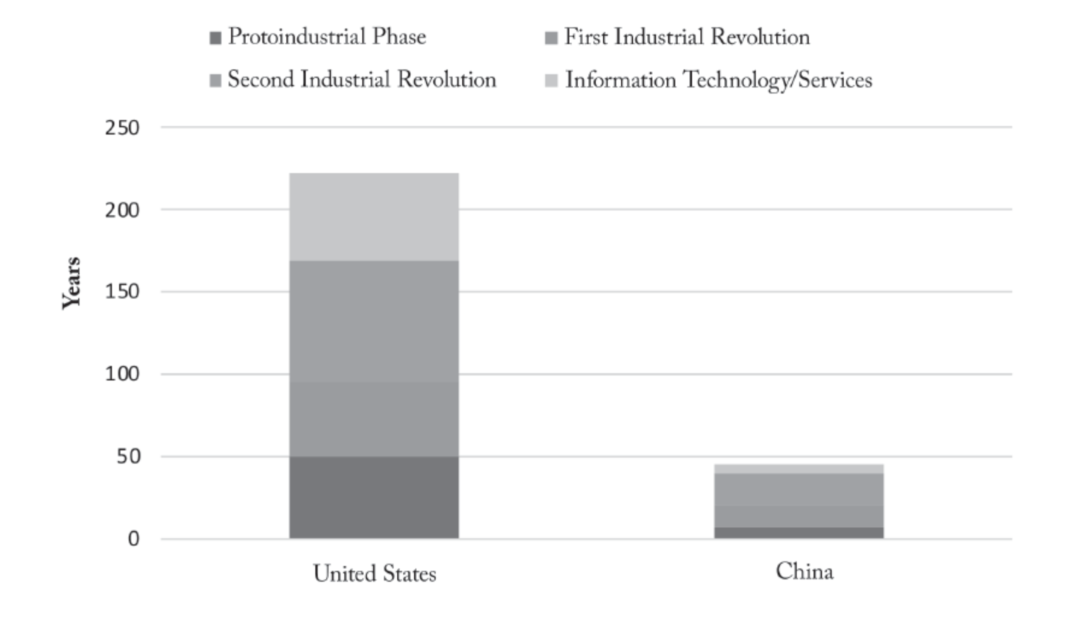
> **—YI WEN, AVP, Federal Reserve Bank of St. Louis**

Total Years of U.S. and China Economic Evolution



Sources: Yi Wen, *The Making of an Economic Superpower: Unlocking China's Secret of Rapid Industrialization* (Hackensack, NJ: World Scientific Press, 2016); Mark Higgins, *Investing in U.S. Financial History* (Austin, TX: Greenleaf Book Group, 2024).

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Value of Vicariously Witnessing Manias and Crashes

> *"What has been true of railroads has been true of other forms of permanent investment. First, high charges and high profits. Then speculative investments in the same line. Next, an overstocked market, and no profit at all. Finally, cut-throat competition and widespread insolvency."*
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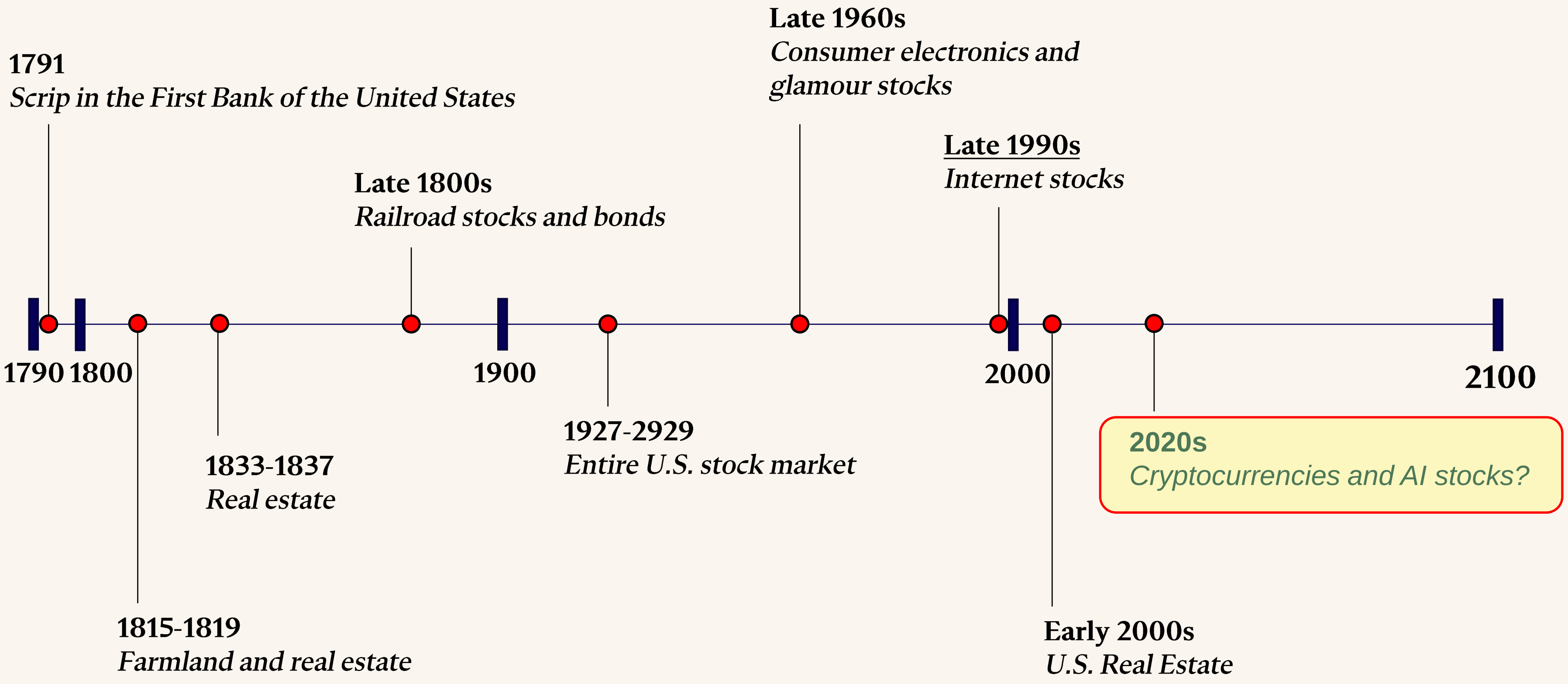
> —**ARTHUR HADLEY, economist (1886)**



Sources: Mark Higgins, *Investing in U.S. Financial History* (Austin, TX: Greenleaf Book Group, 2024).

Isolating Key Economic Factors

> *"The simplest [rule] is this: Inflation if it re-emerges, ought to be nipped in the bud; the longer we wait, the harder it gets to rein in."*
>
> —**ROBERT J. SAMUELSON, author of *The Great Inflation***

January 31, 2024 Chair Powell's Press Conference FINAL

monetary policy is putting downward pressure on economic activity and inflation. The Committee decided at today's meeting to maintain the target range for the federal funds rate at 5¼ to 5½ percent and to continue the process of significantly reducing our securities holdings.

We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. But the economy has surprised forecasters in many ways since the pandemic, and ongoing progress toward our 2 percent inflation objective is not assured. The economic outlook is uncertain, and we remain highly attentive to inflation risks. We're prepared to maintain the current target range for the federal funds rate for longer if appropriate.

As labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals are moving into better balance. We know that reducing policy restraint too soon or too much could result in a reversal of the progress we've seen on inflation and ultimately require even tighter policy to get inflation back to 2 percent. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess the incoming data, the evolving outlook, and the balance of risks. The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. We will continue to make our decisions meeting by meeting.

The most important sentence in Chairman Powell's January 31, 2024 statement was his acknowledgement that easing monetary policy too soon will require even tighter policy in the future. This was among the most important lessons of the Great Inflation. Seeing this statement convinced me that the Fed is aware of their most important risk.

Source: Transcript of Chair Powell's Press Conference January 31, 2024. https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240131.pdf

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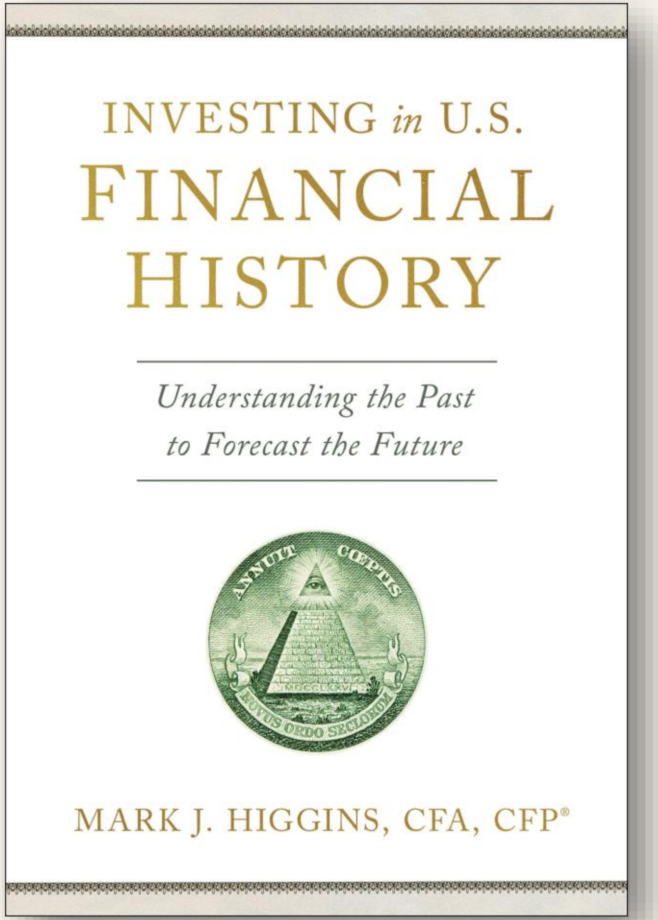
Other Key Lessons from U.S. Financial History

- Evolution of American attitudes toward the use of the public debt
- The essential role of central banks in a financial system
- The warning signs accompanying the formation of asset bubbles
- The extreme danger of severe economic depressions
- The structural headwinds for actively managed funds
- The long-wave cycle that renders financial innovations obsolete

Questions

Learn more about Investing in U.S. Financial History



https://www.amazon.com/Investing-U-S-Financial-History-Understanding/dp/B0CDJGG9RG