Relief Rally

In 1997, when the Asian Crisis broke, equities tumbled in a flurry of panic selling. Markets were down between 60 – 70% in the first downdraft. When Asian governments rushed to bailout their banks and corporates the market found its footing and rallied between 50 – 100% as disbelief was converted to relief.

All the financial engineering and arm twisting could not address the broader more deep rooted causes of the crisis and with time markets began to price in fundamentals. Asian market made new lows, between 20 – 50% lower than the 1997 lows.

2008 is a bit different. The scale is different. The world economy is in a synchronized slow down. But the psychology that drives markets is pretty much the same. Complacency, fiddling while Wall Street burns, somewhere there is a whiff of smoke, it turns to panic, the panic spreads, soon the fire is the least of concerns as a stampede for the exit begins, the fire is put out, order returns, people cheer, and then somebody looks at the ruins. Eventually, however, the rebuilding begins.

As an aside, in 1997, as Asian governments nationalized parts of their economies, forced consolidation upon the banks, spent the public coffers on bailout plans, the IMF, the developed world and every academic worth his publications condemned these non market solutions that would doom the region to failure after failure.