



CSA Wealth Management, LLC

(276) 634-0000
(276) 634-5100 (fax)
(866) 634-0018 (toll free)

729 Country Place Road
Axton, Virginia 24054

email cindi@csawm.com
www.csawealthmanagement.com

LESSONS FROM THE GREAT DEPRESSION

May 7, 2009

The aftermath of bursting bubbles creates new attitudes, some of which can last for a lifetime. If any of you have ever known a survivor of the Great Depression, you will know that some of the traits they shared in the aftermath of that experience seemed nearly universal: they refused to ever borrow money again, lived below their means, and tended to hoard basic supplies which they had purchased when they found them on sale. Even wealthy people counted pennies and held onto large amounts of cash. Their attitudes about spending and saving were forever changed by the traumas of that experience.

Early in my career, I often wondered about that time period. I wondered if we would learn from it, recognize disaster coming, and more importantly, if we would know how to protect ourselves from its worst effects if it came again. One of my clients was a young adult during the 1930's and many years ago I asked him these questions. "How did those that survived do it? What was it that they did differently? How can we protect ourselves if this ever happens again?" In other words, take this to a personal level. How do *you and I* best survive this? His answer may surprise you. I feel confident that many of our leaders will not be able to anticipate what he said. Think about it for a moment. You know the history. How would you answer?

What he said has stayed with me as one of the most profound bits of wisdom I have ever heard. He said, "Cindi, you are on the wrong track. You are asking me where people should have put their money. That's the wrong question. There was nothing that was safe. The banks were failing, foreclosures were everywhere, unemployment was 25%, stocks and bonds became worthless every day, and businesses closed daily. You must first understand that there is no such thing as a safe place to put your money. All anyone has is the relative value for the use of money. Once you accept that, then you will begin to ask the right questions."

I was stunned. He was telling me that I was missing the whole point. It wasn't what you did, but whether you understood where and why money would flow in any given circumstance. I hadn't heard anyone say this before, so we continued. He asked me, "What do you believe is your most valuable asset? Once you realize the answer, you will understand that this, **THIS**, is the thing you must protect. This is where you must focus your attention and what you must protect above all else."

I think this is the question that most theories on economics fail to ask or answer. Perhaps that is why they inevitably prove to be disappointments when applied to real economies. Perhaps the same can be said of our leaders. This asset is something only you can protect. No one, and no government, can protect it for you.

His answer? The scarcest and most valuable asset you could have at that time was...

A JOB! With a job money continues to flow into your pocket more reliably than any other asset would ever be able to duplicate.

This is a profound realization. Every employer understands this immediately. If he has one million dollars in a treasury bond that pays 3% interest, he will receive \$30,000 income per year. The only reason he should hire you, is if you can produce MORE than \$30,000 per year for him. Otherwise, he is better off just taking the interest and not worrying about it.

But now reverse that. If you have a job paying \$30,000 per year with no raises, no bonuses, and no benefits, then that job is worth one million dollars to you. The value is equal. Either the job or the bond will produce an annual income to you of \$30,000. If you don't have \$1 million to buy the bond, then you must use your labor to produce that same income.

Once you understand the true value of your job, then it becomes obvious that for most people, their job is their most valuable asset. It is the asset that produces the most annual value for them.

However, most people do not realize this and they do not value their jobs accordingly. My client's point was that this became very obvious during the depression.

Jobs were scarce. There were four people competing for every three jobs that existed. There was also competition among those holding the jobs--the best employee would become the last employee the business owner would ever want to let go or replace with someone else. He told me that he was grateful for every day that he had a job, and did everything in his power to be sure that he would be the one chosen to come back the next day. The best way to protect this asset (his job) was to be the best, the most productive and valuable employee the employer could find.

We are now facing a lot of these same issues. Businesses are in survival mode. They have to cut expenses everywhere they can and seek out the most productive employees they can find. Failure to do so means they cease to exist.

Every dollar is the same as every other dollar, so we all are facing the same choices. We can either use our money to purchase a stream of income that may or may not be reliable, or we can invest in the companies hiring the people and using the technologies that add more value than those interest payments could. That's it. Common sense tells us that those are the only two choices that exist if we want a positive outcome.

Those who are focused now on finding the best available people and resources, top to bottom, will be the new leaders. A bursting bubble always takes us back to basics, and this twin bubble in credit and housing is forcing the lesson on us once again.

We will continue to seek out the opportunities that treat our money best. Two months ago, we began acquiring equities again, focusing on those companies best able to succeed. At the moment, business ownership is providing better value than bonds. This will change several times as we move forward, and we will continue to change as the situation dictates.

Cindi Showalter