1987: Year it all collapses

By LESLIE COONS
Freeman staff

RHINEBECK — The nation's socio-economic and political systems are breaking down — and 1987 will be the year "it all hits the fan," predicts the director of the Rhinebeck-based Socio-Economic Research Institute of America.

In a release distributed nationally this week, Institute director Gerald Celente offers a number of predictions based on major events of domestic and international significance.

Institute studies forecast a severe recession by year's end, Celente said. The market will first "go significantly higher" and then turn around, he predicted. To avert social and political instability, "which is also in the offing, we should plan now," he said.

The institute is the hub of nationwide research sources for Celente, a Chicago native who settled in Rhinebeck in 1980. The organization provides information to businesses, politicians and others who want to act in advance of events, rather than react to them later.

This year, festering problems long "swept under the rug or dismissed by politicians, bureaucrats and the private sector" will erupt into international crises, Celente predicted.

"The system is breaking down . . . at every level," Celente said from the Institute's Rhinebeck headquarters. "This is the year of reckoning. People will realize that everything is not so great as it has

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been painted.".

Celente said much of the nation's recent prosperity was built on citizens' confidence in President Reagan. A number of recent events, including the Iran/Contra arms scandal, congressional override of Reagan's veto of South African sanctions and Nicaragua's capture of a crew member and a U.S. registered plane carrying unauthorized arms have damaged that "confidence shield," according to Celente.

The president has "proven himself merely to be a politician, of the same cloth as any other politician who has lied to the public," he said.

Reagan could retire before the end of his term, possibly due to failing health, Celente said. It's also possible the president could use his health as an excuse to leave office in the midst of continued political turmoil, he agreed. "It's highly unlikely we'd ever know the real reason," Celente said.

"When people lose faith in the government, there are a lot of long-lasting implications," Celente warned.

Economically, Celente said, to "stave off the worst of the bad times ahead," Americans must look at the socio-political factors causing the problems: "It is necessary to first admit we have problems that are not being solved by employing methodologies and strategies of the current system."

"The facts speak for themselves," Celente said, citing inadequate health-care systems, wasteful military forces, failing educational systems, a worsening environment, deepening farm crises and industrial weaknesses, mounting social problems and political fiascos.

"A global view of the future is needed," Celente said. People need to realize they are world citizens "whose lives are being threatened by the weaknesses of the current system," he said, adding that only then will "real progress be achieved."

Meanwhile, the Institute recommends that both small and major investors consider new strategies, Celente said. He recommended portfolio insurance as well as increasing investment portfolios up to 20 percent in precious metals such as platinum, silver and gold.

Institute studies caution against heavy investment speculation in real estate, Celente added, explaining that he foresees a real estate bust centering around oversupply of commercial space and a glut of high-income properties. The value of that type of real estate will decrease by 15 to 20 percent by year's end, Celente predicted.

Reporter's Notebook: Buy-back Frenzy Captures Our Man's Eye and Appetite

By Tim Metz
Staff Reporter of The Wall Street Journal

You've got two choices, Smedly. You can help your management and your country by getting behind our company share-repurchase plan and buying some stock for yourself. Or, you can take over the Fargo, N.D., branch Feb. 1.

Whatever their motivation, corporate insiders are snapping up shares of their own companies at a record pace, says newsletter editor Edwin "Ted" Buck.

Mr. Buck, who has edited the Vickers Weekly Insider Report since 1971, this week put out a special editon chronicling the extraordinary corporate-insider feeding frenzy under way since mid-October, just days before the 508-point crash of the Dow Jones Industrial Average.

Of 204 insider transactions occurring between Oct. 15 and Monday of this week, and reported to the Securities and Exchange Commission by the end of business Monday, 187 were purchases and only 17 were sales. "I've never seen anything even close to being that lopsided," Mr. Buck says.

But wait. The SEC deadline for reporting October insider transactions was yesterday. And maybe a lot of insider sellers might not have reported to the SEC until yesterday.

While goody-goodies trying to impress the boss would have had plenty of incentive to report their purchases early, Benedict Arnolds on the sell side could have been expected to postpone the filing as long as possible.

In his experience, such suspicions are nonsense, Mr. Buck says. "I'll bet you a hot fudge sundae that a 10-1 buy/sell ratio, or something close to it, holds up" through the late filing rush for October transactions, he says.

Not only is Mr. Buck confident of his numbers, but he also knows exactly how to get the attention of a dieting, 245-pound newspaper reporter.

Backlash

Not long ago in this space, the Socio-Economic Research Institute of America, based in the sleepy Hudson River community of Rhinebeck, N.Y., was credited with predicting last Jan. 20 that a world stock market collapse was likely in 1987. (The institute was also credited in the item with having advised investors to protect against that prospect with portfolio insurance—ironically one of the factors that produced last month's crash.)

But the other day, another bit of the institute's research surfaced—a brief June 10 report on Wall Street. The client for the report wasn't identified, but institute director Gerald Celente confirmed it was done for a major multinational consumer products concern based near New York City. The reports predicts that:

"Once market conditions reverse, resentment toward Wall Street. . .will become vocal" and "inside (information) traders, corporate raiders, leveraged buyout artists, junk bond dealers and computer traders will fill the public's appetite for scapegoats."

Dinner, anyone?

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GERALD CELENTE
WITH TOM MILTON

We didn't believe it. We were looking at the facts and charting reality. We were tracking trends. On January 20 we issued a press release, predicting that before the end of 1987, the market would crash.

On January 22 the *New York Times* wrote: "A Perplexing Rally Has Wall Street Jittery. Rarely has the stock market been the source of so much concentration and befuddlement as it is today. Yesterday, after a 13-straight-day advance that piled $200 billion onto the value of investor portfolios, the stock market rally of 1987 finally suffered a down day. Investors from Maine to California wondered whether the spectacular advance, just the latest leg of one of the longest and most powerful bull markets in Wall Street history, had come to an end. Or whether the market was just taking a breather before charging ahead once again." Well, it charged ahead.

In the first three months of 1987, the Dow gained 25 percent.

"Raging Bull Conjures Up Roaring '20s," wrote *USA TODAY*. "Increasingly, experts are drawing parallels between the current four-and-a-half-year-old bull market and the roaring bull market of the '20s. The big question for investors: If it's the 1920s all over again, is this 1926 or 1929?"

On March 31 the Dow plunged in reaction to a decline in the dollar. Investors were afraid that the Fed would have to raise interest rates to keep the dollar from going into a free-fall. So every time the dollar fell the market reacted negatively.

The market recovered, surging ahead by 70 points in early April. By now the Dow was over 2200, and despite a few setbacks along the way it broke 2700 in August. On August 25 it closed at 2722.42. That was the peak. The unfounded optimism had driven the market as high as it would go. Meanwhile, it had become so volatile that a rise or fall of 50 points in one day was nothing unusual. But when it fell by 92 points on October 6, and then by 95 points on October 14 in reaction to the August trade figures, and by 108 points on October 15, it made an impression.

Showing concern, the government tried to talk down interest rates, which had been increasing. At a White House briefing Secretary of the Treasury James A. Baker III told reporters: "We don't want to see interest rates increase on the basis of unjustified inflationary fears. We recognize some market nervousness but it is clear to me that conditions do not warrant *Apocalypse Now* scenarios."

But by then the market had begun to pay attention to what was happening in the real world. At the time we were trying to get the Germans and the Japanese to lower their interest rates, not only to stimulate their economies but also to give us room to lower our interest rates without causing the dollar to fall. They were resisting, especially the Germans, for fear of inflation. So Baker warned them that if they didn't cooperate, he would let the dollar fall. On October 18, the day before the crash, he said in a television interview: "We will not sit back in this country and watch surplus countries jack up their interest rates and squeeze growth worldwide on the expectation that the United States somehow will follow by raising its interest rates." This statement was directed mainly at the Germans, but it was unsettling for all investors.

On October 19, before the market opened, the *Wall Street Journal* wrote: "Although no one is forecasting a crash like that in 1929–30, there's a growing consensus that the bull market is seriously, if not mortally, wounded. Nevertheless, some see the next 300 point move in the industrial average taking the market back up to the 2500 level rather than down to the 1900."

That morning the lead story of the money section of *USA TODAY* was headlined: "Is It a Bear or a Bargain? Value Hunters Prowl for Hard-Hit Stocks." The story said that the recent drop in the Dow might mean a chance for individual investors to buy at prices they thought they would never see again. It quoted Bill Miller, director of investment management at Legg, Mason, Wood, Walker, Inc., who said: "I'm encouraged. We are finding many more stocks to buy now than we did a month or two ago."

And they were still finding people to sell them to—like my dentist, whose broker called him that morning and talked him into buying $200,000 worth of stocks on margin, so that he would be positioned for the recovery.

That day the Dow plunged 508 points, a drop of 22.6 percent, wiping out more than $500 billion of wealth. It was the worst crash in our history.

Maintaining the Illusion

The government's reaction was typical. Before getting into his helicopter, Reagan said: "There is nothing wrong with the economy. All the business indices are up."