The Ultimate “Black Swan” Event – September 11th, 2001

For those of you that might be unfamiliar with the term “black swan”, it is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight. The term is based on an ancient saying that presumed black swans did not exist because the only swans that Europeans had ever seen were white, until black swans were discovered in Australia in 1697! Then it was redefined to mean an unforeseen and consequential event that changes one’s perception and understanding. I quite often chalk it up to a “failure of imagination” to ***not*** expect black swans in our lives.

The black swan theory was developed by Nassim Taleb in 2001 to explain the disproportionate role of high-profile, hard-to-predict, and rare events that are beyond the realm of normal expectations in history, science, technology and most importantly – financial markets. He explained the psychological biases that blind people, both individually and collectively, to uncertainty and the substantial role of rare events in historical affairs. He advocates for what he calls a "black swan robust" society, meaning a society that can withstand difficult to predict events or “unknown unknowns”. He proposes what he has termed "antifragility" in systems; that is, an ability to benefit and grow from a certain class of random events that seemingly might overwhelm us at first.

Most black swan events have been bad, such as September 11th 2001, which truly caught us by surprise because of a failure of imagination inside our U.S. national defense agencies. 9/11 led to massive geopolitical shifts, wars in the Middle East for the past 22 years and a “new normal” of heightened security concerns as we go about our normal daily activities of traveling, shopping or just going to the DMV.

Another negative black swan event would be the Global Financial Crisis in 2008 that resulted in the collapse of the US housing market and the failure of several banks and brokerages. How did the collective “we” not see that black swan event coming when we knew that anyone with a pulse and a checkbook could get a no-money down mortgage with no income verification? The GFC lead to a deep recession and a loss of trust in the banking system that persists to this day.

But black swan events do not all have to have negative consequences. Just think about how the internet was thrust upon us in the late 1990s and has totally transformed how we do EVERYTHING in our lives for the better!

Being that 9/11 was the ultimate black swan event in the modern era, many of us relate to the events of that day based on how we *individually* experienced it, but *collectively* responded to it. I was working in finance at that time and happened to be visiting Wall Street on 9/11, only blocks from Ground Zero when the two planes were crashed into the Twin Towers (more about that in this month’s podcast). So I therefore look at the effects of the 9/11 black swan event with some pride in how we bankers and investors responded:

- The NYSE did not open for trading on September 11th 2001 as the terrorist’s attacks happened just prior to the market’s opening bell at 9:30 am. The exchange did reopen for trading on September 17th 2001, after a week-long shutdown, the longest market closure since the Great Depression.

- The first day of trading after the attacks saw the Dow Jones fall 684 points, a 7.1% decline, setting a record at the time for the biggest point loss in one trading day.
- The US Treasury bond market, the largest single bond market in the world, actually never stopped trading that horrible day, even after most of the electronic trading networks went offline because of the Twin Towers' collapse, as several bond brokerage firms such as Cantor Fitzgerald were decimated that day.
- The first week of resumed stock trading after the attacks saw the S&P 500 fall more than 14%, while gold and oil rallied.
- But the NYSE recovered to its pre-9/11 trading level within only a month of the attacks and has never looked back, having gained 263% since that day!

Let us never forget the horrible events of 9/11 but let us also celebrate the antifragility of New Yorkers to not only bounce back from such an unfathomable attack on our homeland, but to rebuild and continue to be the greatest city in the greatest country in the world.

P.S. → a great example of the "antifragility" of New Yorkers is explained in this fantastic short documentary called **Boatlift – an untold Tale of 9/11 Resilience.** I highly recommend you take ten minutes to watch it via the YouTube link below.

https://youtu.be/18lsxFcDrjo?si=r24V9GUvUxJUGwH1

August 2023 Market Summary

Stocks took a breather in August as the S&P 500 fell 1.6%, the Dow Jones Industrial Average slipped 2.0%, and the NASDAQ ended 2.1% lower. It was a disappointing month globally–EAFE sank 3.8% in August and Emerging Markets tumbled 6.1%. Nonetheless, August didn't subtract too much from the upbeat year-to-date performance of major US indices. The NASDAQ is still up 34.1% in 2023, the S&P 500 is 17.4% higher, and the Dow 4.8%.

Energy was the only US stock sector that posted a positive return in August, up 1.6%. Utilities were the laggard of the remaining ten sectors, down 6.1%.

Unemployment rose by three-tenths in August to 3.8%, even as the labor force participation rate grew. Inflation crept back up above 3%, while Core Inflation fell to 4.65%. The Median Sales Price of Existing Homes leveled off this month, and mortgage rates reached 20-year highs. Gas prices rose in August even as the price of Brent and WTI crude oil traveled in opposite directions this month.

US Treasury yields were largely flat in August, echoing the rather muted performance from equities. The 3-Month Treasury Bill remains the highest-yielding US treasury instrument at 5.56%, and the 10-Year is the lowest at 4.09%. In global fixed income, the yield on Japan's 10 Year Government Bond rose by 5 basis points to 0.66%.

Index	1 Month Total Returns	3 Month Total Returns	6 Month Total Returns	1 Year Total Returns
S&P 500	-1.6%	8.3%	14.5%	15.9%
Russell 1000	-1.7%	8.5%	13.8%	15.4%
Dow Jones Industrial Average	-2.0%	6.1%	7.6%	12.6%
Nasdaq Composite	-2.1%	8.7%	23.1%	19.8%
MSCI EAFE	-3.8%	3.9%	5.2%	18.6%
Russell 2000	-5.0%	9.0%	1.0%	4.7%
MSCI Emerging Markets	-6.1%	3.7%	3.9%	1.7%

Kind Regards,

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