

1920— 1929

KEY EVENTS

The Post–World War I Boom

The Technology and Consumer Revolution

The Roaring Twenties Bull Market

THE 1920S SAW ONE OF THE MOST dramatic surges of economic growth and cultural change in American history. Emerging from World War I as the world's leading industrial power and principal creditor nation, the United States entered the decade with unmatched productive capacity, financial influence, and confidence. Prosperity expanded rapidly. Technology reshaped daily life. Consumer culture flourished. And the stock market climbed with a momentum that seemed boundless.

Though the decade ultimately ended in crisis, the forces unleashed during these ten years permanently transformed the nation's economic structure and its role in global finance.

“We are all at a wonderful ball where the champagne sparkles in every glass and soft laughter falls upon the summer air. We know, by the rules, that at some moment the Black Horseman will come shattering through the great terrace doors, wreaking vengeance and scattering the survivors. Those who leave early are saved, but the ball is so splendid no one wants to leave while there is still time, so that everyone keeps asking, ‘What time is it? What time is it?’ But none of the clocks have any hands...”

—ADAM SMITH

When the 1920s began, the United States stood alone atop the global economy. Europe lay physically devastated and financially indebted to American banks. US factories, farms, and shipyards, which had been modernized during the war, redirected their vast capacity toward peacetime production. Pent-up consumer demand, suppressed by wartime rationing and uncertainty, surged back with force, resulting in a **post-World War I boom**. Families replaced worn-out goods. Businesses modernized equipment. Cities expanded outward.

The federal government helped stabilize this transition. The Federal Reserve managed interest rates and liquidity, encouraging investment while preventing immediate instability. The federal income tax, now firmly in place, provided consistent revenue that supported infrastructure and public investment.

Social change reinforced economic momentum. The ratification of the Nineteenth Amendment in 1920 expanded political participation to millions of women and coincided with a growing female presence in both the workforce and consumer markets. Women increasingly shaped demand across retail, fashion, appliances, and household goods.

Internationally, American finance moved to the center of the global system. US banks extended loans across Europe and Latin America, exporting capital on a previously unseen scale. Wall Street, flush

with foreign investment, expanded rapidly in size, sophistication, and global influence.

As the postwar boom took hold, technological innovation propelled the economy into a new phase. No decade witnessed a more explosive convergence of invention, mass production, and consumer adoption than the 1920s.

The automobile lay at the heart of this **technology and consumer revolution**. By the end of the decade, the United States produced more than 80 percent of the world's cars. Companies such as Ford and General Motors employed hundreds of thousands of workers and reshaped entire supply chains. Demand surged for steel, rubber, glass, oil, road construction, and suburban housing. The automobile became the defining product of the American middle class and permanently altered where and how people lived.

Electricity spread rapidly through cities and factories, increasing productivity and transforming home life. Radios became common household fixtures, creating shared national experiences and fueling the growth of mass advertising and powerful consumer brands. Telephones expanded communication networks, while motion pictures emerged as one of the nation's most influential cultural and economic industries.

A key financial innovation made this consumer transformation possible: installment credit.



Russell Patterson, Where There's Smoke There's Fire, ca. 1920s. India ink, red and brown inks with watercolor on illustration board. Caroline and Erwin Swann Collection of Caricature & Cartoon, Library of Congress Prints and Photographs Division, Washington, DC (LC-DIG-ppmsca-01589).

Americans could now purchase cars, refrigerators, radios, and washing machines without waiting years to save the full price. Consumption soared. Corporate profits climbed. Economic growth fed on itself.

Even restrictive policies reshaped economic behavior. Immigration limits enacted in 1921 and 1924 tightened labor markets, raising wages and expanding domestic purchasing power. Prohibition redirected social spending into entertainment, hospitality, and underground economies, indirectly stimulating growth in nightlife, restaurants, and related services.

Infrastructure investment reinforced these trends. The Federal Highway Act of 1921 funded a national road network, accelerating automotive culture, stimulating construction demand, connecting rural communities, and laying the foundation for the suburban landscape that would define American life for generations.

As prosperity spread through industry and households, financial markets accelerated even faster. The 1920s produced one of the strongest and most sustained stock market booms in American history. Millions of Americans became investors for the first time during the Roaring Twenties Bull Market. Brokerage firms multiplied. Financial journalism expanded. Stock tickers became icons of modern urban life.

Corporate profits surged, and companies issued substantial amounts of stock to fund expansion. Wall Street evolved from a powerful national exchange into the world's undisputed financial capital.

Speculation intensified alongside growth. Many investors bought stocks on margin, borrowing heavily under the assumption that prices would continue rising. Easy credit magnified gains *and* risk. As valuations climbed far beyond underlying earnings, warning signs became visible to cautious observers.

By the late 1920s, stock prices had detached from economic fundamentals. Optimism, leverage, and momentum carried markets forward even as structural weaknesses deepened. The system grew increasingly fragile.

In 1929, that fragility would be exposed. The dramatic crash that followed ended the decade's prosperity and ushered in the Great Depression. Yet even as the boom collapsed, the economic structures built during the 1920s would continue to shape the nation's future.

Despite its dramatic ending, the 1920s fundamentally transformed the American economy and positioned the United States as the dominant economic power of the twentieth century. Industrial supremacy reached new levels, with the nation

leading global production in steel, oil, automobiles, electricity, and consumer goods. The modern American corporation emerged.

Productivity surged. Consumer culture flourished. The middle class expanded. Millions gained access to credit, wages rose, and households acquired goods that defined modern living. Wall Street became the financial center of the world, financing not only domestic expansion but also reconstruction abroad.

Even with the devastating crash that closed the decade, the core achievements of the 1920s endured. America entered the next era with unmatched industrial capacity, technological leadership, and financial influence.

WHAT IS THE BEST-PERFORMING STOCK OF ALL TIME?

Hank Bessembinder, who authored the famous academic paper “Do Stocks Outperform Treasury Bills?” found the answer in his paper, “Which US Stocks Generated the Highest Long Term Returns?”

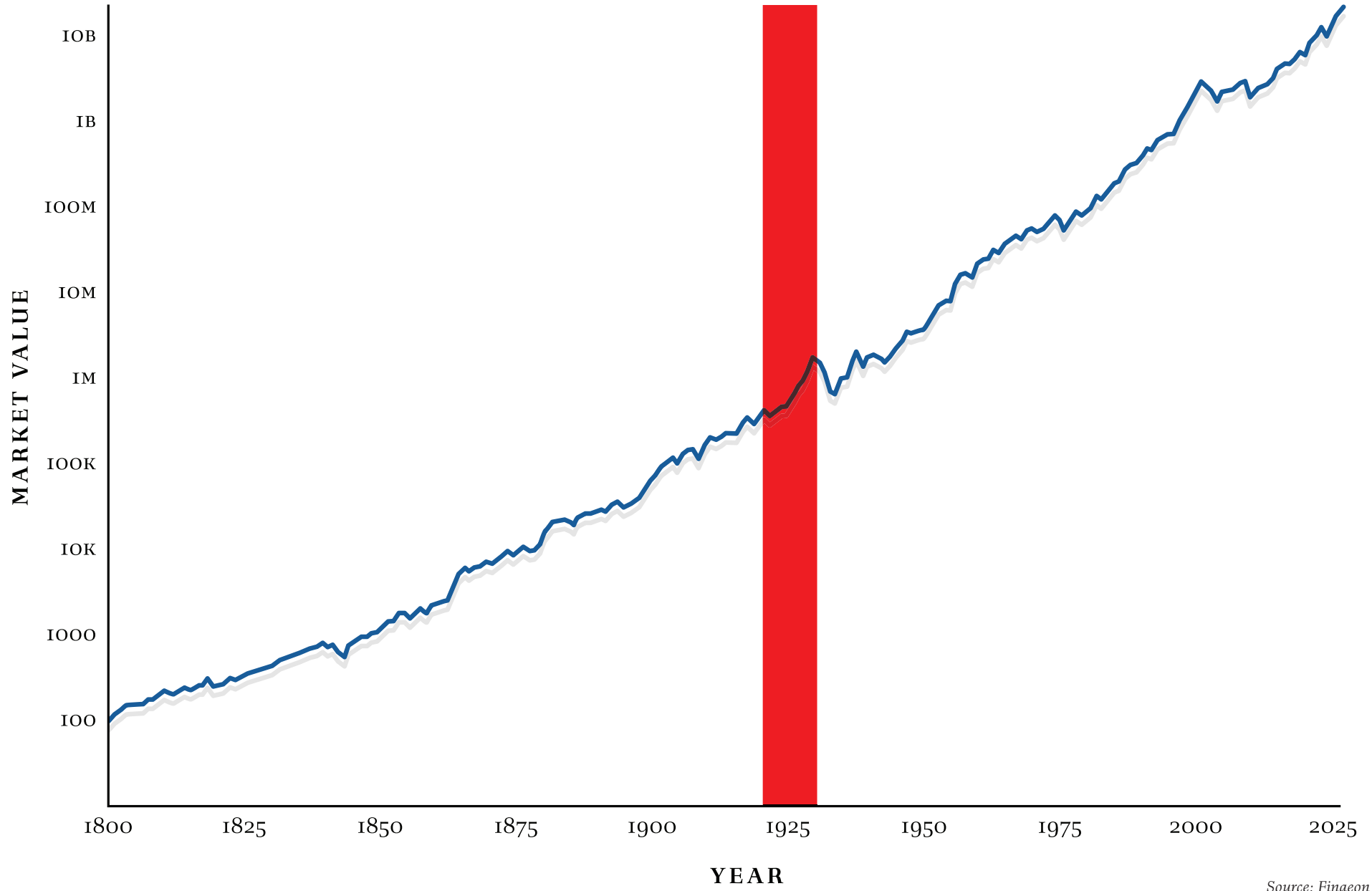
Eighty stocks had returns of over 500,000 percent in their lifetime, but only one had a total percentage gain of 265,528,901 percent. If you had invested \$1,000 in this stock in 1925, it would be worth over \$2.5 billion by the end of 2023. What was it?

Some may guess Berkshire Hathaway (BRK), but that was only a 792,053 percent return. Microsoft (MSFT) offered a paltry 622,498 percent.

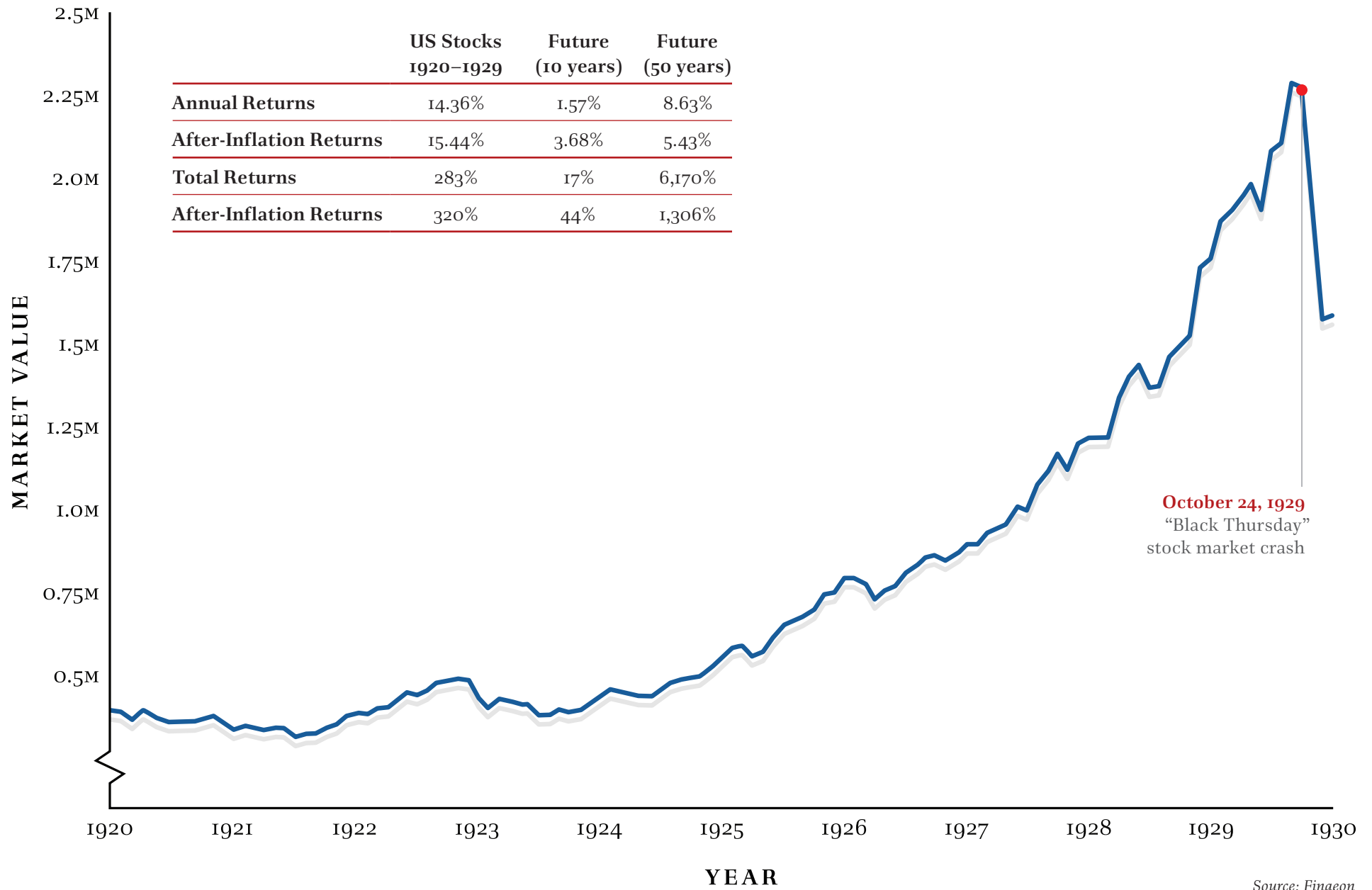
No, the actual winner was Altria (MO)!

Most people probably assume that the best-performing stock returned something like 30 percent or 50 percent per year. Only six stocks out of the top 100 had returns of over 20 percent per year. In fact, most of the best-performing stocks had returns in the mid-teens. That’s not shabby, of course, and better than the broad index, but not the eye-popping returns you see being advertised on Instagram.

The key is just that they did it for a very long time. The challenge with holding these winners is the path. If you held one of the best-performing stocks over the past years, chances are it had a 70 percent, 80 percent, or even 90 percent drawdown. Could you sit through it?



Source: Finaeon



Source: Finaeon



1930— 1939

KEY EVENTS

The Great Depression

The New Deal

America's Economic Rebound

OPPOSITE: Men Eating Bread and Soup in a Bread Line during the Great Depression, ca. 1929. Photographic print. © PictureLux / The Hollywood Archive / Alamy Stock Photo.

THE 1930S BEGAN IN DEVASTATION and ended with a nation fundamentally transformed. No decade in American history reshaped the country's financial systems, regulatory institutions, and industrial capacity more profoundly. What started as the most severe economic collapse the United States had ever experienced ultimately produced the modern economic architecture that would support American dominance for the rest of the twentieth century.

In the aftermath of the 1929 stock market crash, thousands of banks failed, erasing savings and shattering confidence in the financial system. Industrial production collapsed. Unemployment soared. Stock prices plunged to historic lows. Between 1930 and 1933, the **Great Depression** saw nearly every sector of the economy contract sharply, exposing the fragility of an unregulated financial order built on leverage, speculation, and weak oversight.

The scale of the collapse overwhelmed existing institutions and policies. Local and state governments proved incapable of responding. Private charity was insufficient. The crisis demanded a national response unlike anything previously attempted.

“The nature of compound interest is it behaves like a snowball of sticky snow. The trick is to have a very long hill.”

—WARREN
BUFFETT

Between 1933 and 1935, the United States undertook one of the most sweeping transformations of economic policy in its history, called the **New Deal**. The speculative excesses and institutional weaknesses of the 1920s gave way to a new financial architecture grounded in transparency, stability, and public trust.

Banking reform came first. The Glass-Steagall Act separated commercial and investment banking, sharply reducing conflicts of interest. The creation of the Federal Deposit Insurance Corporation guaranteed bank deposits, restoring confidence and ending the cycle of mass bank runs that had devastated the economy.

THE FIRST MUTUAL FUNDS

The modern mutual fund began with a breakthrough in the 1920s that took full shape in the 1930s. On March 21, 1924, Boston-based Massachusetts Investors Trust (MIT) became the first open-end mutual fund in the United States. It was a structure that allowed investors to buy and sell shares based on the fund's daily net asset value. This made investing in a diverse portfolio of stocks accessible to ordinary people, not just wealthy insiders. MIT is still in existence today under MFS Investment Management, one of the oldest asset managers in the world, and serves as a direct link from the earliest days of mutual investing to the present.

During the Great Depression, distrust of banks and fear in financial markets helped shape

investor behavior and fund design. In 1935, the Voya Corporate Leaders Trust was launched as an early passively managed investment vehicle with a fixed list of top US corporations in equal shares. Its long-term, buy-and-hold approach reflected the risk aversion born of that era and has stood the test of time as a unique historical offering in the mutual fund world.⁴

Together, these early funds helped turn mutual funds into an enduring way for ordinary investors to tap the broad market through diversification, professional management, and redemption flexibility: core features of the mutual fund industry still used by millions today.

Capital markets were rebuilt as well. The Securities Act of 1933 and the Securities Exchange Act of 1934 imposed disclosure requirements and outlawed many abusive practices. The creation of the Securities and Exchange Commission gave the federal government enforcement authority, transforming American stock markets into the most transparent and trusted in the world.

Monetary governance was strengthened through the Banking Act of 1935, which reorganized and empowered the Federal Reserve. For the first time, the central bank had clear authority to manage credit and monetary stability nationwide, dramatically reducing the likelihood of uncontrolled financial panics.

At the same time, the federal government invested heavily in the nation's physical and human infrastructure. Programs such as the Civilian Conservation Corps, Works Progress Administration, and Tennessee Valley Authority built roads, bridges, dams, power systems, airports, schools, and public buildings. These projects reduced unemployment, modernized underdeveloped regions, and expanded the country's long-term productive capacity.

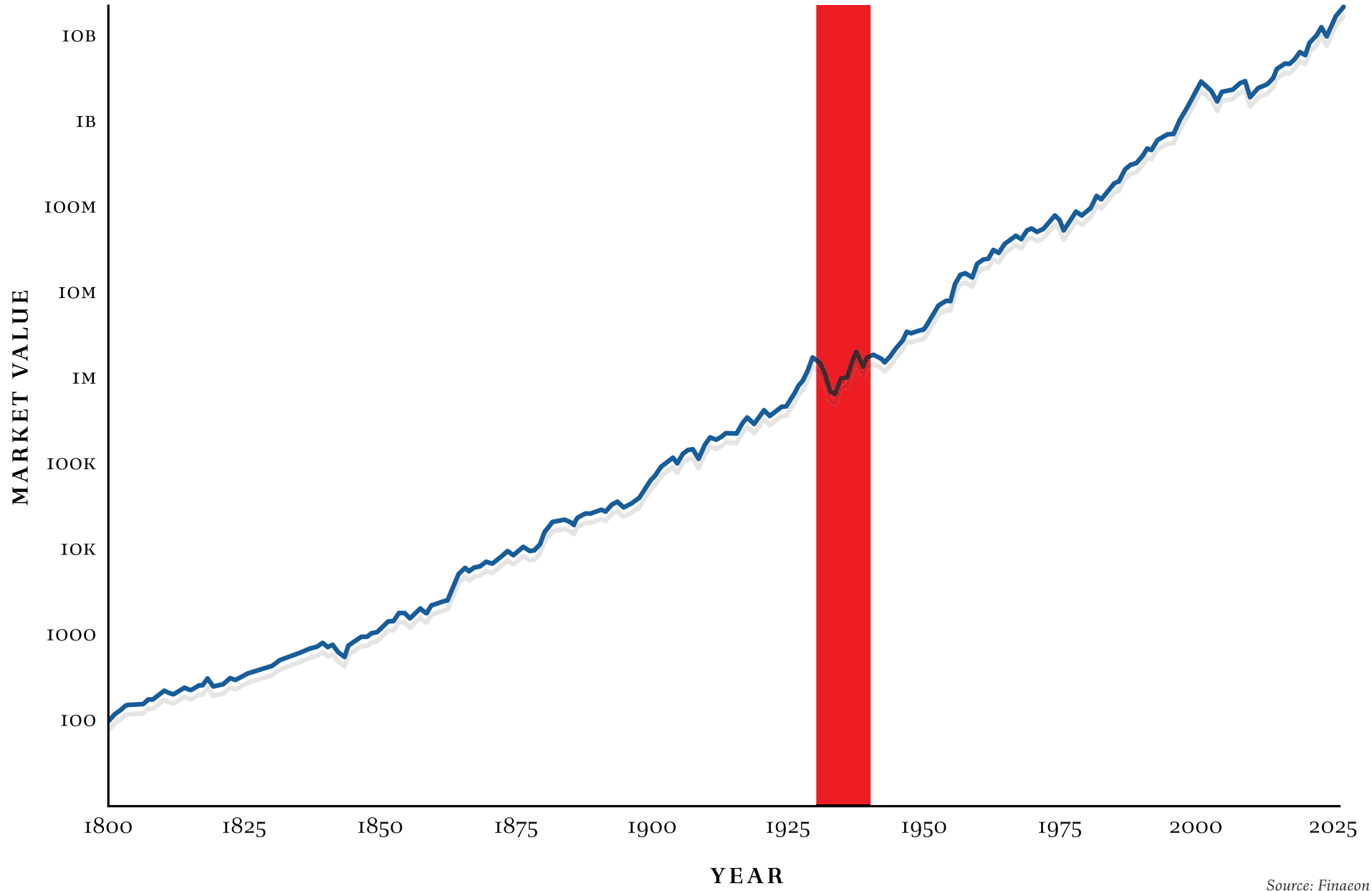
Even agriculture and manufacturing, the sectors hit hardest by the collapse, received support through price stabilization, wage standards, and production programs. Though controversial, these

measures prevented total collapse and positioned key industries for eventual recovery.

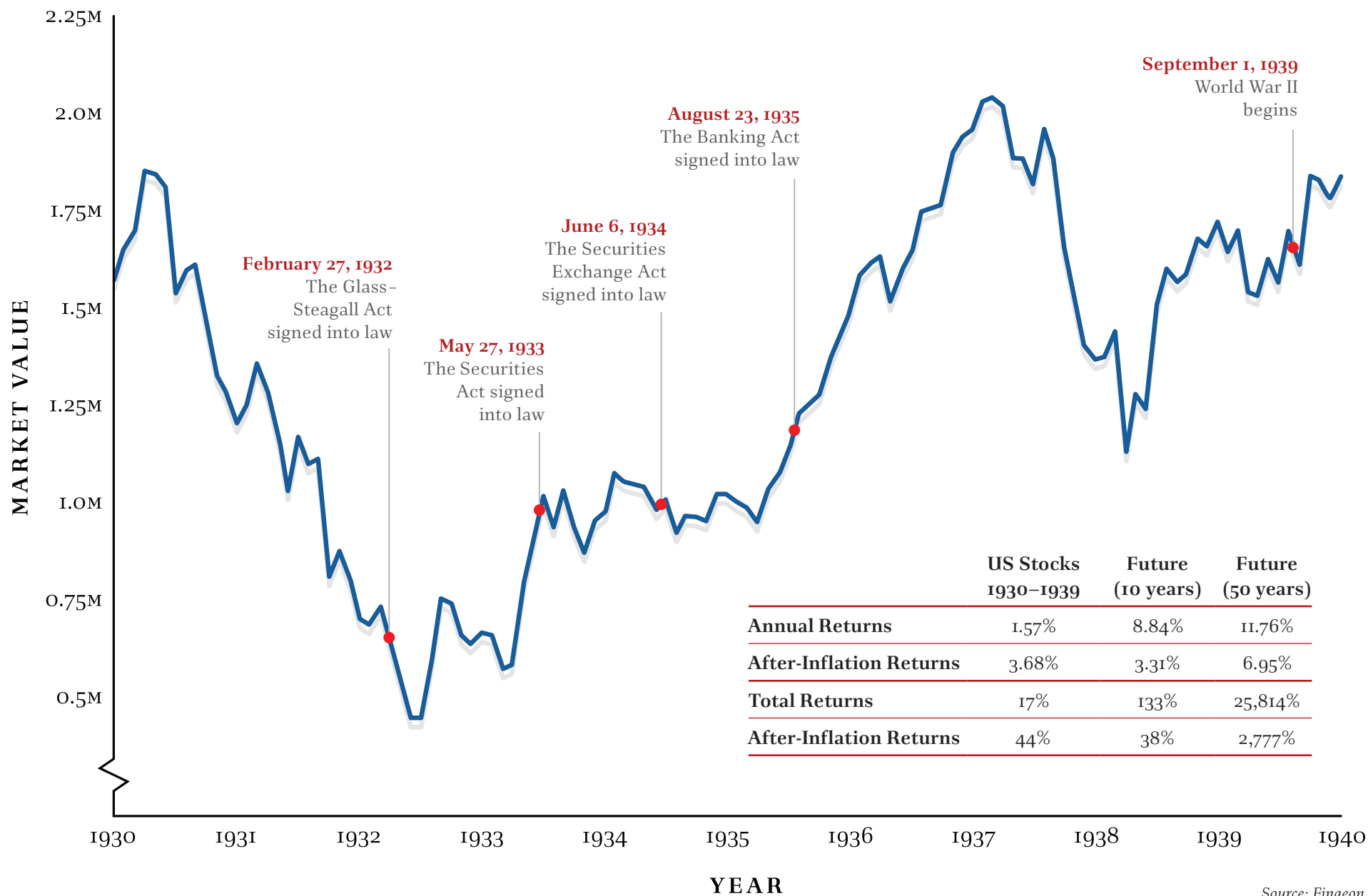
The most decisive shift of the decade came when the United States abandoned the gold standard in 1933–1934. By ending gold convertibility, revaluing gold, and expanding the money supply, the Roosevelt administration broke the grip of deflation that had crushed prices, wages, and profits. Monetary flexibility replaced rigid constraint, giving policymakers powerful new tools to manage economic cycles. This led to **America's economic rebound**.

As deflation eased, recovery followed unevenly but steadily. Industrial production revived in the mid-to-late 1930s. Automobile manufacturing rebounded. Steel mills restarted. Machinery, chemicals, and emerging aviation industries modernized rapidly. Detroit regained momentum, and industrial capacity expanded beneath the surface of still-high unemployment.

Housing finance reform also reshaped the economy. The creation of the Federal Housing Administration and Fannie Mae stabilized mortgage markets, standardized lending, and made long-term home financing accessible to millions. These policies sparked new construction and laid the foundation for mass homeownership, which would become a cornerstone of middle-class wealth after World War II.



Source: Finaeon



Meanwhile, global events began to alter the economic landscape. Rising militarization in Europe and Asia increased international demand for American steel, oil, agricultural products, and manufactured goods. Even before formal entry into the conflict, the United States began rearming industrially, further strengthening key sectors and preparing factories for large-scale production.

The significance of the 1930s lies not in the depth of the collapse, but in the decisiveness of the reconstruction that followed. The decade created modern American finance through the SEC, FDIC, and an empowered Federal Reserve. It restored trust in markets and ended the era of constant,

destructive banking failures. Massive infrastructure investment expanded productive capacity and modernized the nation. Housing and labor reforms stabilized household spending and credit. Industrial modernization quietly prepared the economy for wartime mobilization and postwar prosperity. And by abandoning the gold standard, the United States gained the monetary flexibility required to manage future crises.

The nation emerged from the 1930s not yet prosperous but fundamentally stronger. The Great Depression, despite its immense suffering, became one of the most consequential turning points in America's rise as a global economic powerhouse.

4 To see all references throughout the book, please visit: <https://mebfaber.com/endnotes>