September 12, 2001

**Market Damage Assessment**

The WTC devastation is huge, both personal and material.

The personal damage will be cured over time with tears, anger and vengeance, some of it vicarious. Man has millions of years of experience dealing with disaster and manages to cope with the help of time.

But we have the material problem to deal with because an economic collapse, national or personal, will heap sorrow upon sorrow. It is not lack of feelings for the victims but a need for the show to go on that compels me to write today, specifically about the damage to the stock market that this terrorist act will spawn. A very large proportion of American wealth is now invested in the stock market and therefore this terrorist act was not solely against the direct victims but against the whole American nation. America is, without doubt, the beacon of enlightenment -- it is very apt for the Statue of Liberty to bear a torch. This terrorist act was against all the enlightened people of the world.

The stock market, like banks, is a pyramid scheme. If a bank is required to have 20% reserves it can multiply the money in circulation five fold by lending out deposits (see Banks? Ponzi Game!). A similar effect is true of the stock market. A few thousand shares change hands sending the price per share up by, say, one dollar and all the shareholders feel wealthier. Bankers and brokerage houses confirm this feeling of wealth by their willingness to lend more money to these fortunate share holders. It is what Greenspan called the wealth effect. But the wealth effect works in both directions, what the market can create it can take back

Let's speculate what a butterfly fluttering its wings in Afghanistan can cause.

This morning brought the following news which I extracted from:

Wednesday September 12, 6:55 am Eastern Time
**US Attacks Could Deal Blow to Lloyd's**
By Clelia Oziel

> *Experts said Lloyd's would inevitably be hurt. Its syndicates were*

> *hard hit when insurers paid out $510 million after the World Trade Center was bombed in 1993.*

I don't know if the $510 million figure refers to Lloyd's or to the whole insurance industry. I'll us it in my calculations as the cost to the industry.

The 1993 bomb damaged approximately five floors. The September 11 terrorist act destroyed, at a minimum, 230 floors if you estimate 5 basements for each collapsed tower and damaged much of the other buildings in the complex. I have never visited the WTC so I don't know how many floors the smaller building have, for this exercise, let me estimate a total of 150 (one of them seems to have 47 floors). Assuming further that each damaged floor will cost the insurance industry $100 million per floor, same as in 1993, and that each destroyed floor will cost ten times that, I arrive at the whooping figure of around $250 billion dollars in damages that the insurance industry will have to pay.

Assuming further that insurance companies have one half of their reserves in bonds and the other half in the stock market, and assuming further that the stock market has a ten to one power to leverage the creation of wealth, then one and one quarter trillion dollars will be taken out of the stock market to pay for the damages to the WTC and its occupants. Of course, there are four huge jets and their passengers to take care of, the Pentagon and sundry.

The article goes on to say:

> *Insurers worldwide will face claims for the destruction of the twin World Trade Center towers, which cost $750 million to build in the early 1970s.*
>
> *Experts said the total bill, which could take years to establish, is likely to top the $3 billion insurers paid out for the Piper Alpha oil platform explosion off the coast of Britain in 1988, the most expensive man-made disaster to date.*

That $3 billion figure is very misleading. If damage to 5 floors from a bomb cost the industry $510 million in 1993, how are they going to get away with paying just six times that for the destruction of two towers and all their content? Just paying $102 million per floor, the same as in 1993, would bring the bill for the two collaped towers to over $23 billion.

I fear that the butterfly in Afghanistan will cause the bear to growl even more.

Denny
"Demand creates queues. Supply gets rid of them."
Software Times