

**TABELL'S MARKET LETTER**35 WALL STREET, NEW YORK 5, N. Y.
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The following is Jules I. Bogen's Journal of Commerce Newsletter in the issue of October 11th. Because it coincides with my opinion, I am reprinting it below:

"Advancing stock prices in the face of declining corporate earnings indicate a basic change may be taking place in the public attitude toward stock investment.

"Interest in the stock market on the part of both investors and speculators has been at low ebb during the past three years. The jump in corporate earnings to record totals in 1947 and 1948 was practically ignored by investors, stock prices remaining well below the high level reached in the spring of 1946.

"The price-earnings ratio for all listed stocks dropped last year to about 8:1, the lowest on record and comparing with about 16:1 in 1939. Industrial stocks early this year sold on an average yield basis of over 7%

"But the stock market has been moving up in recent weeks to a 3 years' high point in the face of serious strikes and expectations in many quarters of a further business recession next year. Does this advance not point to changing investor psychology?

"High taxes have been blamed as the chief reason for investors' indifference to increased earnings and dividends. This view applies particularly to the investor in the middle and upper income brackets.

"However, high taxes do not discourage investment by persons in the lower income brackets and there are evidences that the purchase of equities by the lower income groups is on the increase. There is a persistent excess of odd-lot purchases over sales of stocks reported by the Securities and Exchange Commission. And open-end investment trusts, which appeal especially to the lower and middle income investors, have enjoyed a great increase in sales during the past few years.

"The public is undoubtedly becoming more yield conscious. This is shown by the fact that savings and loan associations, which pay their shareholders a higher rate of return, have made greater percentage gains in assets than savings banks in the past few years. Mutual savings banks; most of which pay 2% to depositors in this State, in turn have gained deposits at a considerably faster rate than have commercial banks, generally paying 1%.

"With yields of 6-7% available from the general run of common stocks, there has been growing interest in equity investment among smaller investors. Public utility stocks in particular, because of the relative stability of the return they afford, have enjoyed an extraordinarily favorable market despite heavy new equity financing and occasional distributions by holding companies in process of dissolution.

"Even among high bracket investors, the purchase of stocks is attractive where capital gains can be secured. A broader market for stocks among low-income buyers, with consequent advances in quotations, tends to encourage the purchase of shares by wealthier investors in quest of capital gains.

"Lack of faith in the future stability of dividend yields has deterred many investors from purchasing common stocks in recent years, despite the relatively high yields available.

"But memories of the severe depression of the '30s are becoming dimmer. There are more and more present-day investors who were too young in the '30s to have actually experienced losses.

"Moreover, the belief is gaining in many quarters that Government intervention, through deficit spending and otherwise, makes another such major depression unlikely for the future. It is also widely recognized that corporations have built up large liquid resources that will help them to stabilize dividends in future periods of reduced earnings.

"A change in popular psychology makes established yardsticks inapplicable in judging stock values. Such a change caused the stock market to decline in 1946 and 1947, when earnings were on the increase but investors found stocks unattractive. The current market advance in the face of declining corporate earnings may mean that another change in popular psychology, involving a more optimistic appraisal of stock values, is under way."

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