	For $1 of Earnings	For $1 of Dividends
1929	540	478
1937	465	352
1946	470	454

These ratios, however, ignore some important facts. The dividend payout today is less than 50% of earnings. This is a very low ratio. A 66⅔% payout is much more applicable over a period of time. They also ignore the fact that these ratios apply only to the 30 stocks in the Dow-Jones Industrial Average. There are many "light blue chip" issues that are selling at only six to eight times earnings and are yielding 6% to 8%. This present situation is quite different from 1929, 1937 and 1946. In these past periods all issues were selling at high price to earnings and low dividend yields. These "light blue chip" or secondary issues could have a considerable price rise before they catch up with the ratios that prevailed in past periods of overvaluation.

Technical Viewpoint

The last consideration is the outlook from a technical viewpoint. *On a broad overall pattern,* there is nothing in the present technical pattern that suggests anything resembling 1946 or 1937 or, even less, 1929 Very few vulnerable distributorial patterns have been formed. Some stocks appear in need of a resting or consolidation period These are mostly in the group known as growth stocks General Electric, *for example, has reached all upside objectives* and may hold in roughly the 48-38 area for a year or two before resuming its long-term uptrend On the other hand, there are a great many secondary issues that still indicate higher levels While the averages are selling at new highs, this does not apply to the general run of stocks. At present levels of around 360, *the industrial average is now considerably* above the 1946 high of 213 and the 1952 high of 295. Yet over 60% of the 1,000 most actively traded issues on the New York Stock Exchange and the American Stock Exchange are selling below the highs reached in the 1946-1952 period.

While quite a few issues appear *high enough, there are an equal* or larger number of issues that still indicate higher price levels. The technical pattern appears to suggest an even more selective market than the very selective market we have witnessed over the past five years. Best opportunities for capital enhancement appear to be in the backward issues that are just a shade below *top quality and are in an upward* earnings trend.

Summary

In summary, the market shows no signs of an important top like 1929, 1937 or 1946.

It is possible, however, that an intermediate correction could occur at any time. This intermediate correction could occur from *present levels or from a somewhat* higher level. If the November election turns out favorably from a Republican viewpoint, the industrial average may reach approximately the 400 level

Whatever reaction occurs will be comparatively mild There are successive support zones at 330 and 315. This compares with a 1954 low of 278.

Even if such a reaction occurs, it will be extremely selective. There are many individual issues that indicate higher levels over the next year regardless of whether the averages are selling at 400 or 325.

The present market is a much more intelligent market than those of the past. Low-priced and tertiary issues will not advance *just because the general market* is in an uptrend Purchases must be confined to issues with improving sales and earnings.

Regardless of temporary interruptions, the market is headed for higher levels over the longer term There may be a resting period for a year or two during which the industrial average may hold in a range bounded by 400-370 on the *upside and 330-315 on the downside* During this period individual issues could advance individually. The overall trend is toward higher levels and I doubt if the Dow-Jones Industrial Average sells, except momentarily, much below 300 for the next decade.

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Higher Market Ahead Over the Long Term

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Market analyst sees black-and-white contrast between 1929's and today's market, citing intervening inflation, population increase, national output rises, and growth in leading companies' earnings and dividends. Maintains possible imminent Democratic election vctory would not entail long-term economic harm. Concludes while intermediate correction could occur at any time, market shows no sign of major top, with D-J Average rise to 600 by 1958-1960 a distinct possibility.

The stock market, as measured by the Dow-Jones Industrial Average is now within shooting *distance of the famed 1929 high* of 386 Not so many years ago this goal was considered almost impossible of achievement. Now it looks as though the high of 25 years ago will easily be passed — possibly in 1954 —undoubtedly in the next year or two. It appears that my 1948 prediction that the Dow-Jones Industrials would reach 450 by the late 1950's may *have been quite conservative.* A level of 600 by 1958-1960 now seems a distinct possibility.

Edmund W. Tabell

Quite a few people are beginning to think that the stock market is dangerously high, and that the possibility of another 1929 market crash is increasing. In my opinion, the difference between today's market and that of 1929 is almost as great as the difference between black and white Concern over the fact that an average is approaching the 1929 high ignores the tremendous changes that have occurred in the past 25 years It ignores the change in the purchasing power of the dollar. In terms of a constant 1929 dollar, the present market is selling around 230 as compared with 386 in 1929 It ignores the current replacement value of a company's plant. It ignores the fact that population has increased 40 million since 1929. It ignores the fact that the nation's total output (in real terms —not just in dollars) is more than double what it was in 1929 It ignores the fact that personal income (after taxes) has increased 236%, that industrial capacity has doubled, as has the output per worker. It ignores the changes in individual companies. General Electric at the 1954 high of 48½ sold about 45% above the 1929 high of 33⅝—but sales have increased 290% since 1929. Earnings have increased 200% and dividends have increased 220% in the past 25 years.

Difference in Technical Conditions

Such superficial thinking also ignores the difference in technical stock market conditions from 25 years ago Speculative trading was rife in 1929 and the volume of trading greatly exceeded that of today, despite the fact that there are a much larger number of shares presently listed In 1929, brokers' loans were about seven times present levels and accounted for 9% of the value of New York Stock Exchange stocks. Today, brokers' loans are less than 1% of the value of New York Stock Exchange stock prices. Outright gambling was a large part of 1929's volume. Today it has disappeared almost entirely and we have an investment market to a large degree with a relatively small amount of speculation on a high margin basis.

To compare the present 25-times-earnings and less than 3% yield on some growth issues to a similar condition in 1929 also ignores some very important differences.. Today only a handful of growth issues are selling at very high price-to-earnings ratios and low yields. They comprise a small segment of the entire market This condition applied to almost every stock in 1929. Such a comparison also ignores the motivation of the buyer Today, these growth issues —such as Minnesota Mining, Dow Chemical and others—are largely being bought for cash, not for any immediate rise in price and dividends—but for long-term growth over the next 10 or 15 years. A drop in price would not disturb the buyer, who, in most cases, would welcome such a development to add to holdings. In 1929, stocks were bought in hope of a resale at a profit in a very short period of time. They were bought on a low margin and a drop in prices either scared or forced the holder out of the market.

Some Correction Ahead?

While it is evident that the present market is in no way comparable to 1929 as far as vulnerability is concerned, would it not be logical to expect some correction of the unprecedented rise of over 30% in the Dow-Jones Industrial Average in a little over a year?

Possibly if we review some of the reasons why the market started its advance 13 months ago and then evaluate the changes that have occurred since that *time, we might arrive at some* conclusion of how vulnerable the market is at present price levels.

In the first place, the advance has taken place without any rise in general business. The Federal Reserve Board index of production was 133 in September, 1953. It is around 125 today Over the next six months, the general expectation is for no great change, but any change that occurs will most likely be toward slightly higher levels Thus, the business pattern should not be a depressant factor on stock prices.

The main factors that brought about the 30% advance from the September, 1953 lows were roughly.

(1) The long-term factors of the increase in consumption demand brought about by not only the increase in consumer income but by a more equitable distribution of such income, the population growth and the tremendous increase in money supply

(2) The more favorable investment *climate brought about* by the Eisenhower Administration.

(3) An easy money market.

(4) Stock prices were undervalued on the basis of historical price-to-earnings ratios, yields and the spread between stock and bond prices

(5) Technical market considera*tions.*

As far as the fundamental factors enumerated in the first category are concerned, there is no change in the favorable long-term patterns Consumer income has reached new high levels and is expected to continue a slow uptrend. This should result in increased demand. Gross national product in the second quarter is up slightly from the first quarter despite a decline in government spending. Consumer spending and capital spending are showing signs of improvement All of this spending is motivated by the huge money supply pumped into our

economy in war and prewar years At the present time, our gross national product amounts to about $2.82 for every dollar of active money. This is up from about $2 at the end of 1945, but still substantially below the $3 60 ratio which was established during the 1910s and 1920s. A return to this figure over the next five to eight years would drive business forward to much greater volume than we have yet enjoyed. The population growth continues to exceed estimates despite the fact that the birth rate for the next few years may flatten out because the young men and women reaching marriageable age today are the depression babies of 20 years ago There are a much smaller number of them However, the excess of births over deaths in the first six months of 1954 is an amazing 10% greater than last year's all-time previous record. The enormous crop of postwar *babies is growing up Today they* are concentrated in the 6-14-year age group. From 1955 to 1960, they will be in the 11-19-year age group. After that they will be *grown up and ready to marry and* an accentuated population increase will start In the 30-year stretch from 1945 to 1975, the number of people will expand by *65 to 75 million. We are only a* third of the way through this 30-year period of enormous population growth These long-term factors have improved since a year ago.

Possible Election Repercussion

There could be a temporarily unfavorable change in the second *factor The forthcoming national* election could result in Democratic control of the House and possibly the Senate This might result in a delay of the Eisen*hower constructive program and* cause a temporary market decline Over the longer term, it would cause no great harm. A trend such as that which elected Eisen*hower so spectacularly in 1952* does not end in two years 1954 results will be dominated by local issues. The Democrats may show some gains in line with usual off-year national elections The long-term trend still remains favorable for 1956 and 1960, but the 1954 election could cause a short-term decline. On the other hand, a Republican victory—or even no loss in the Senate or House—could result in a further advance above the 1929 highs.

The easy money market should *continue regardless of whether* there is Republican or Democratic control of Congress. This is an important factor in stock prices, because of the spread between *yields in bonds and stocks The* average yield on the stocks in the Dow-Jones Industrial Average is now 158% above the yield on high grade bonds This is down *only slightly from 180% a year* ago, despite the fact that stock yields have dropped rather sharply A continued firm or slightly higher bond market will be a sus*taining influence on stock prices.* Here again there is nothing in the bond market picture that could result in sharply lower stock prices.

Invulnerability

The fourth factor of undervaluation has been partially corrected by the 30% rise in prices over the past year and some stocks that have advanced sharply could be subject to a correctionary or resting period. Nevertheless, the immediate pattern is not particularly vulnerable. The table below shows how much you paid for $1 of earnings and $1 of dividends in the three periods of stock market highs in the last 25 years as compared with prices a year ago and today:

	For $1 of Earnings	For $1 of Dividends
1929	$19.30	$29 90
1937	16 60	22.00
1946	16 80	28.40
*1953	9 00	16 25
Today	13 10	22 62

*September

Today's figures are approximations, but there is no doubt that the present prices have gone a long way toward discounting the undervaluation that existed a year ago — but they have not yet reached the overvaluations of past stock market highs The table below shows where the Dow-Jones industrials would be today if 1929, 1937 and 1946 ratios prevailed today: