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TABELL'S MARKET LETTER December 12, 1969

It has been the custom of this letter in Decembers past to devote one or two issues to a long range attempt at market forecasting for the subsequent year. This forecast has generally divided itself into two parts, the first looking backward at the year just past, and the second, an attempt to assess the year to come. Accordingly, in this letter we will attempt to lay the groundwork for a forecast by reviewing the year 1969. The squeamish are thus forewarned so that they may cease reading at this point.

1969, as nobody needs to be told, was a bear market year. Like all bear markets, it has been accompanied, especially in its later, more recent stages, by the usual jeremiads and warnings of disaster. These have, if nothing else, provided us with an occasional good laugh during a period when little sustenance was available from prices crossing the tape.

There are, for some reason, those who believe that every market downswing is a unique visitation unprecedented in historical experience. Actually, the market drop of 1969 was a phenomenon totally within the context of the post-war experience, and has been, within the standards of such experience, on the relatively mild side. Indeed, it was exceeded in severity by the declines of 1946, 1947, 1949, 1957, 1962 and 1966. None of this, admittedly, is calculated to make the investor feel any better about his 1969 losses. It is simply a reminder that difficult years such as the past one have appeared before in stock market history and will undoubtedly recur again. President Harry S. Truman reminded us that those who could not stand the heat should get out of the kitchen. The dictum is applicable to the stock market.

It having been admitted that 1969 was a bear market year, an inquiry into the reasons therefor -- aided by the usual 20-20 hindsight -- may perhaps be helpful. Was the drop due to a decline in corporate earnings? Hardly. Earnings, depending on what series one cared to use, have been flat to slightly up during most of the year. The erosion is totally explained by the fact that the Dow-Jones Industrial Average was selling for better than 17 times earnings at the end of 1968, and is selling close to 13 times current earnings as 1969 draws to a close. What we have clearly seen, then, is an erosion of expectations.

As we moved further into the year it became quite evident that (A) inflation was a serious problem and that, (B) the powers that be were going to apply the necessary pressures at least according to their own lights, to bring this inflation to a halt. The consensus forecast for lower corporate profits, certainly, and an economic recession, probably, which thus developed began to have its effect on stock prices, and the adjustment of expectations continued on its painful way, culminating at the end of last July. The recent decline in which the Dow-Jones Industrial Average (but not the broad-based indices or most stocks) carried on to still lower lows, is also explicable in the light of renewed uncertainty as to the prospects for 1970.

As we approach the new year, in fact, "uncertainty" is the keyword. No less an authority than Dr. Rinfret assures us that "There ain't gonna be no recession", thus proving that bad grammar is equally as quotable as good economics. Dr. Friedman, on the other hand, warns us of the possibility of a serious recession unless a 90-degree reversal of present monetary policy takes place almost immediately.

Stock prices, obviously, are not going to move up very much until it becomes possible to see into 1970 more clearly. The salient fact, however, is that a good deal of potential economic difficulty has been allowed for by the Dow-Jones Industrial Average being some 200 points under its level of a year ago. The saw about the market's not discounting the same thing twice will be relevant in making a 1970 forecast.

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Dow-Jones Ind. 786.69
Dow-Jones Rails 173.06

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