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## TABELL'S MARKET LETTER

May 22, 1970

There is very little new to say after a week like the last one. The stock market continued its plunge with the Dow-Jones Industrial Average reaching an intra-day low of 653.27 on Friday. Once again the slide was punctuated by rally attempts including two on Thursday, one Friday morning, and one late Friday afternoon. Buying, however, failed to stem the persistent price erosion.

The persistent question, of course, is "Why?". The New York Times informed us Friday morning that the decline was due to a "lack of confidence". It is, we suppose, as good an analysis as any. There is hardly change in the economic picture over the past year and a half sufficient to make common stocks in the aggregate worth some \$250 billion less than 18 months ago. Yet, it might be worthwhile at this stage to try to pinpoint this so-called lack of confidence. Whence does it arise and how real are the fears?

First of all, Cambodia. Now, quite obviously, as underscored by the tragic dissonance in the streets of late, there is room for a great deal of difference of opinion among honest men as to how and how fast we should extricate ourselves from our Southeast Asia entanglement. We do not intend to intrude our own opinion here, yet the fact remains that the movement of the fighting front some 21 miles west has evoked a response on both sides worthy of a combination of Bunker Hill, Fort Sumter, the Lusitania and Pearl Harbor. A more sober view would indicate that, at the beginning of April, we were bogged down in a nasty war from which it was the government's avowed intention to remove us and, at the end of May, the situation seems to be, at worst, no different.

Coming closer to home, of course, we are commonly told the market fears a recession. This is hardly news. We have been drawing our readers' attention to it in this space for the past six months and by this time everyone, with the unfortunate exception of those in charge of economic pronouncements in Washington, is aware of its existence. However, it is all too equally obvious that the current level of stock prices has "built-in" a forecast for the economy far more pessimistic than anything any responsible economist is now able to envision.

Inflation? Admittedly, the persistence of rising prices into April in a period of declining business has been disappointing. And yet, it must be asked, is this anything more than a demonstration of the tenacity of inflationary expectations fueled by a two-year policy of deliberate expansion?

Now much is made of the stock market's repute as a forecaster and, indeed, it has been uncannily accurate in this regard. However, it would be more true to say that the market anticipates possibilities. The market has declined prior to every business contraction in the post-war period simply because it recognized the possibilities of such a contraction's occurring. It has also declined in the past, when investors feared events that, in the future, did not actually occur. The 1966 decline was widely attributed to fears of a recession that never occurred, and, of course, the whole 1946-1949 drop, producing the only period in recent history when prices were a great deal cheaper than they are at the present, was due to the "certainty" of a post-war depression which, of course, never happened.

At the moment, we have just undergone the most severe decline of the entire post-war era. Stock prices obviously anticipate a good deal more than a mere recession. What? Depression? Chaos in the streets? An extension of the war? Repression? Possibly all of these things. What seems important at this point is for the investor to try to assess as rationally and coldly as possible the probabilities of each of these disasters coming to pass. They all, admittedly, are possibilities. If they were not possibilities, it is highly doubtful that the Dow-Jones Industrial Average would be where it is today. It is only worth remarking that the most profitable opportunities to purchase common stocks have in the past occurred when prices reflected potential disaster which did not come to pass.

Dow-Jones Ind. 667.58  
Dow-Jones Trans. 140.98  
AWT:mn

ANTHONY W. TABELL  
WALSTON & CO, INC.

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