TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

June 11, 1971

In a move which attracted very little notice (an exception was the excellent article by Alfred L. Malabre, Jr., in Monday's Wall Street Journal) the prestigous National Bureau of Economic Research has officially designated the 13-month period from November, 1969 through November, 1970 as a recession. It was the 27th recession since the N.B.E.R. began recording them back to 1854 and the fifth official recession of the post-World-War-II period.

The timing is interesting. The recession was not officially recognized around the end of 1969 when it began. It was not recognized in the Fall of 1970, at which point real GNP had been flat or declining for four quarters and corporate profits had been sliding for almost two years. It was not, in fact, recognized until six months after the whole dreary affair was over.

Now this is no criticism of the N.B.E.R., whose function, after all, is to keep the historical record straight. What it does illustrate, however, is the total folly of attempting to relate economic developments to the intermediate-term course of the stock market and of trying to forecast the course of stock prices on the basis of the business cycle or the short-term trend of corporate profits. Again, recall the timing. The recession began in November, 1969. At that point, the Dow-Jones Industrial Average was 11 months past its high, having peaked out around 995 in December, 1968 and having dropped over 220 points to around 770 by the end of November. Indeed, by that time some two-thirds of the total drop was over with, the last third coming with the final fall to 631 in May, 1970, which, it will be recalled, was six months before the recession was finally over. By the time the recession actually ended in November of last year, the Dow was up 160 points from its low, and when the end was finally recognized in May, it had moved up another 160 points.

Nor was there anything unusual about this process. The 1953-1954 recession began in July, 1953 and ended in August, 1954. Stock prices peaked in January, 1953, six months before the recession began and bottomed in September, 1953, just two months after it started and 11 months before it was over. By the end of the recession, the Dow had moved from 195 to 354. In 1957-1958 prices peaked two years before the onset of the contraction and bottomed six months before it had ended. At the recession's end, the Dow had already moved from 416 to 456 and within six months had moved 100 points higher still. The same sort of record was shown in 1960-1961. As measured by the S&P, stock prices peaked almost a year before the recession commenced and, by the time it was over in February, 1961, most indices had already moved to definitive new highs. Thus, the 1970-1971 experience is a perfectly normal one within the context of the post-war period. Yet, despite all this, we were being assured repeatedly, as stocks hit their low a year ago, that equities were poor investments because we were in a recession, and we are being assured, with equal convinction, today that stocks are a buy because the current outlook calls for continued expansion.

For ourselves, we prefer to be guided by the historical record. In 1954-1956, stock prices continued to move ahead for almost two years after the end of the recession and in 1958-1959 they continued expanding for about a year and a half. In 1960-1961, the expansion continued for 10 months after the end of the economic downswing.

Now one obvious conclusion from the figures above is that the periods of expansion following the reversal of economic downturns seem to be getting shorter. This is, in our view, an acceleration of the anticipation process suggested above, i.e., prices are discounting recoveries a great deal faster than they have in the past. Even so, the record does suggest that the discounting process is not yet fully completed. It is only, after all, six months since the now-recognized contraction came to an end thus suggesting, at a minimum, a continued good market on into the Fall. By that time, no doubt, the economy will have improved even more markedly and the outlook for 1972 earnings will be excellent. We will prefer, however, to allow the market itself, through its own technical condition, to tell us what the prospects are for continued advance.

Dow-Jones Industrial (11:00 a.m.) 917.28
S&P (11:00 a.m.) 100.88

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

AWT:mn