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
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One of the most interesting facets of the widely-heralded celebration of the 50th anniversary of the Great Crash was the way in which it all seemed to come to a culmination this week. This climax was undoubtedly due to the fact that Monday was the precise anniversary of 1929's "Black Tuesday", when the Dow plunged some 30 points on a record 16-million-share volume. (There was also a "Black Thursday" on October 24, when, although the decline was only 6 points, volume reached almost 13 million shares.). The market, in 1979, celebrated the anniversary by doing nothing on the lowest volume in 5½ months.

This particular fascination with the last week in October exemplifies what we have always considered to be a misconception of history. The same sort of mindset is typified by a recent Broadway play in which a character, obviously living in the lap of luxury, picks up a newspaper and suddenly announces with a gasp, "We're ruined." The most widely-read chronicle of the period, John Kenneth Galbraith's The Great Crash, concentrates exclusively on six weeks in October and early November of 1929, almost as though all of the relevant events which reshaped economic history took place within that month and a half. Unfortunately, it just didn't happen that way. As we noted last week, the stock market set records in those six weeks which are unlikely ever to be broken. The impact on the economy and on the life of the average American lasted for over a decade.

For the record, the whole process started on September 3, 1929, the day after Labor Day, when the Dow closed at 381.17. Prices had worked lower (about 10%) by mid-October, and by the end of the day on Black Tuesday, the Dow was at 230.07. Further weakness brought it to a close of 198.69, a total decline of 48%, on November 13.

What is generally lost sight of is that prices then recovered substantially over a period of six months. On April 17, 1930, the Dow had risen almost 50% to 294.07, some 23% below the levels of the 1929 high. Interestingly enough, the Dow was at the same level in relation to its prior high following the first rally after the bottom in the 1974 bear market. In other words, what took place between September, 1929 and April, 1930, while it set records which still stand today in terms of magnitude, still had many of the elements of normal stock market corrections.

What was unique was what took place afterwards, not over a period of six weeks but over a long dreary two-plus years. From that Easter weekend high in 1930, prices moved inexorably lower at an almost steady pace. By October, 1930, the 1929 low, set almost a year earlier, had been broken, and the dreary process of almost steady decline set in. In contrast to the record-setting trading pace of 1929, volume slowly dried up and, by 1932, was averaging less than a million shares daily. The unwinding continued, for the record, to a closing low of 41.22 on the Dow on July 8, 1932. Volume on that day was 720,000 shares.

In the fall of 1929, financial news centered on what was going on at Broad and Walls Streets. Starting in 1930, the focus was a good deal less narrow. In December of 1930, for example, the Bank of the United States failed, the first of 10,000 banks that were to disappear over the next three years. The Gross National Product was beginning a slide that would just about cut it in half by 1933. Unemployment, 3.2% in 1929, was on its way to 25%. The stock price erosion of 1930-32, in other words, was amply justified by what was taking place in the real world.

The Great Crash which we celebrated this week was, in other words, purely a stock market phenomenon, albeit the most resounding such phenomenon of all time. The Great Depression which began to evidence itself in mid-1930 and whose effects continued throughout the entire decade in the 1930's, was quite another animal indeed, touching the bulk of the American population which had never had anything to do with the stock market in the first place. Bear markets of similar shape, if of considerably lesser degree, have occurred regularly since 1929 and will undoubtedly continue to occur just as regularly in the future, and investors have by and large learned, and will have to continue to learn, to live with them. The proper concern of economic policy, it seems to us, is not preventing the repetition of 1929, but preventing the repetition of 1930-32 and its aftermath. It was that period which taught us a lesson we have learned perhaps all too well, with the result that the problems we face today, centering around inflation, while no less real than those of the 1920's, are of an entirely different stripe.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

Dow-Jones Industrials (12:00 PM)	819.28
S & P Composite (12:00 PM)	102.52
Cumulative Index (11/1/79)	709.42

AWT:sla