TABELL'S MARKET LETTER

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Yesterday's Wall Street Journal featured an article on something it called "Fixed Mix", which it cited as a plan many financial advisors were recommending for risk-averse individuals. The strategy for such a plan was described as follows. "A set percentage of the investment is put in each of several asset categories---foreign and domestic stocks, bonds, and real estate...Then at the end of each year, the investor adjusts the holdings, selling (the investments) that have gone up in value and buying more of those that have declined, so that each fund has the same proportion of the total investment as at the start".

It is an interesting approach and it has been cited by a number of other sources, one of which calls it an "equalizing plan". That source explains that "in a declining market, when stocks have declined 20 percent, the fund is again equalized; i.e., brought back to the 50/50 stock-bond ratio...In a rising market, at each rise of 25 percent the fund is equalized by selling stocks and buying bonds." This explanation is found in a text entitled, Investment Timing By Formula Plans, by H. G. Carpenter. The subtitle is, "Today's Approach to Investment Programs". "Today" presumably refers to the publication date of the book---1943.

The coincidence is an example of a phenomenon which we have remarked frequently of late. After 34 years in the securities industry, a great many of the events which characterized the start of our Wall Street career are occurring once again, sometimes in completely modernized form but, occasionally, with very little change.

Formula plans, as they were then called, were all the rage in the early 1950's, and today's "Fixed Mix" was then known as a constant-ratio plan---as distinguished from a cousin, the constant dollar plan. By 1954, such plans had been widely adopted by prestigious institutions, and the approaches had become a great deal more sophisticated. Thus, constant-ratio plans gave way to variable-ratio plans---in one of which there were seven brackets, based on the Dow Jones Industrial Average, which determined the percentage of stocks that an institutional investor should appropriately own. Such plans had been extensively back tested, and, indeed, had worked wonderfully during the 1930's and the 1940's, producing a modest profit over those two decades, which ended with the Dow at less than half its 1929 high. The seven bands were firmly grounded in the history of the prior 20 years. They rose at an annual rate of 3 percent, totally consistent with the market pattern of those years.

There is, in plans of this sort, almost invariably a flaw, often produced by ignoring a possible market trend which seems, on the face of it, patently ridiculous. The possibility of a market which would rise consistently, bringing the Dow to 1000 in the ensuing dozen years was considered at the time to fall into such a category. The plan took its hapless practitioners totally out of the market at DJIA 300 in March, 1954. An investor who stuck with the plan would have been out of the market ever since. Using the plan's formula today, an overvalued level would exist above 820 for the Dow.

Another example of a financial formula, gussied up so as to appear in a thoroughly modern guise, is portfolio insurance, whose antecedents go back at least a century. This approach, as we all learned last October if we did not know it already, involves selling stocks after they have declined by a certain percentage. This is, of course, no different in principle from the long-familiar stop-loss order. The only essential difference is that derivative products are utilized rather than the sale of the stock itself, such a technique reducing transaction costs to a point where the method can, on the surface, be demonstrated to appear plausible. Just as 1954 formula-plan advocates were totally unprepared for a 12-year bull market, portfolio insurers were likewise unprepared for last fall's crash in which bids for futures fell through the floor.

Still another familiar tendency has recently emerged. This being the personification of Wall Street as villain, responsible for just about every socially reprehensible trait. This is a manifestation which erupts at irregular intervals. Back in the last century, William Jennings Bryan was able to run for President on the premise that financiers should not be allowed to "crucify mankind upon a cross of gold". Not too long afterward, Matthew Josephson characterized the Morgans and Vanderbilts as "Robber Barons". In the 1930's, the blame for a sick economy was laid, popularly, at Wall Street's door. Although the medium is new, it is not surprising that there should appear today a popular movie dedicated to proving that the financial community is dominated by rather unattractive malefactors of great wealth. Thus one by-product of the October crash was the emergence of Yuppie jokes.

Now there is indeed, in our view, a perfectly plausible justification of the securities industry as a socially-useful institution although we will not go into it here. It is unfair, in our view, to chastise financial markets because they are, as they have been for a thousand years, vehicles through which some of the more unattractive aspects of human behavior---greed and fear---are able to assert themselves. The financial community should be regarded as an institution, and, as such, it has, in our view, achieved success. In any case, it has been an interesting place to earn one's daily bread for some three and one-half decades.

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Dow Jones Industrials (12 00)	1967.84
S & P 500 (12:00)	257.49
Cumulative Index (3/29/88)	3597.46