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WHAT SMASHED THE BULL MARKET

TO the nation at large the important thing about the collapse of the bull market in stocks is its significance as a yardstick or barometer of business and of industrial prosperity. Nevertheless, millions of investors who thought the bull market was a permanent institution are still wondering what happened to it, and wonder also what may happen next. Who, they ask, is to blame? It is difficult to answer these questions with any assurance, and yet attempts at partial answer are being made by eminent financial authorities, and will be quoted briefly here. Now that the break in stocks has occurred, newspapers are recalling Secretary Mellon's advice last winter to buy bonds. Other papers remember a recent and particularly strong Kansas City *Star* editorial denouncing the "feverish speculation" in the stock market. "Nothing was surer than this must happen some time," declares the Milwaukee *Journal*, as it reflects on the reckless way people spent billions of dollars on stocks yielding an income anywhere from one to three per cent., expecting that somebody else would buy them out at even higher prices. "Multiple millions of dollars," sadly reflects the Omaha *World-Herald*, were "sucked into the capacious coffers of Wall Street that might better have been spent in legitimate buying, in sound and profitable investment, in safe and needed and helpful enterprise." "The sight of women by the score, confident in their powers of foresight because they have learned the pat lingo and technique of the boys who chalk the quotations, 'operating' on margin day after day in brokers' ticker-rooms with all the assurance of professionals, has been one pathetic evidence of a craze that had no rational basis," says the Grand Rapids *Press*, in an editorial discussion of "The Bear Killing."

But we need not confine such characterization to the Middle West. Right in New York we find *The Evening World* putting it all in a nutshell, thus: "Underlying conditions have been so good that speculation has made them its excuse for going clean crazy." On the financial page of the New York *Times* we read: "It was well known long ago, by every one who kept his head, that even these stocks had been recklessly overvalued in the speculative craze; that the prices fixt for them were described in private conversation at the time, even by managers of the companies, as utterly unwarranted." "Never before in all the annals of the human race has there been such an unbridled speculation as this country has had in recent years," according to *The Commercial and Financial Chronicle*, which continues:

Every one became seized with the idea that it was possible to get rich overnight by simply taking flyers in the stock market. Accordingly, every one became fascinated by the fluctuations on the Stock Exchange, and every one a participant therein. Scrub-women, porters, elevator-boys, typists, bootblacks, soda-fountain attendants, clerks, statisticians, actors and actresses, business executives—in fact, all classes of the population from the highest to the lowest, the humblest as well as those most elevated in station, one and all became a prey to the consuming speculation craze. And now the sad awakening has come.

Explaining what bankers mean when they say that the break was "technical," *The Wall Street Journal* says:

Here then was a market which had heavily overdiscounted first-rate management, fairly calculable growth, and an unbroken continuance of general prosperity. It will be observed how weak the position had become from the purely speculative point of view. Stocks can be conservatively carried by financing with a lender of money at a loss of income—for a time. They can not be so carried all the time by all sorts and conditions of borrowers.

Representative of New York City banking comment on "probably the most drastic contraction of values in the financial history of the country," are these paragraphs from the current *Guaranty Survey*, published by the Guaranty Trust Company of New York:

To suppose that the selling wave of the last few weeks was due to adverse developments of corresponding importance in the general business situation would be a fundamental error.

A number of factors combined to produce the unprecedented appreciation in stock prices that brought about the corrective action of the market in recent weeks. One, of course, was the truly fine progress of the nation's leading business concerns, which fully justified a strong upward trend in stock values. But this perfectly normal movement was immensely exaggerated by the changed character of the investing public. To borrow a popular phrase of the day, it may be said that the American people have become "investment-minded," partly as a result of the wide buying of government securities during the war and partly by reason of the diffusion of income in the last decade, which has enabled vast numbers of people to enter the investment field on their own account for the first time. Security dealers were quick to take advantage of this change by establishing offices in cities and towns throughout the country. These offices, in turn, attracted thousands of inexperienced persons into the ranks of stock-market speculators, where neither their financial knowledge nor their financial strength entitled them to be.

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Thus, the public that has, to a considerable extent, determined the course of the stock market in the last few years is a public uninformed as to intelligent procedure in buying and selling securities.

It was easily subjected to psychological reactions of an exaggerated sort, buying and selling en masse without any clear understanding of the reasons for doing so. Altho there has always been an element of mob psychology in the actions of the investing public, this element has been increased manyfold by the changes of recent years.

It is fair to presume that this new class of investor will have to be reckoned with in the future. Whatever irregularities and disorders are suffered in consequence must be counted as part of the price of economic progress. There is, of course, a likelihood of improvement in this respect, with a gradual education of the public in business conditions and market behavior.

The small investor is, then, to a large extent, the victim of his own imagination. His attitude toward the market seems to have been based on the view that there was no limit to the process of increasing earnings, reinvesting the profits, and thus still further increasing earnings. But the country's business concerns obviously can not go on indefinitely fulfilling the demands of the public imagination. "Plowing back" earnings is a perfectly sound policy within limits, but business expansion must be kept in proportion to the market for consumers' goods.

When the realization finally came that prices of many securities were out of all proportion to present and prospective earning power, the reaction was similarly exaggerated. Not only did the fear of loss impel a rush of liquidation, but the disorder was increased by the fact that innumerable small speculators, unable to supplement their impaired margins, were precipitated into the market as sellers against their own will. Just as the efforts of the public to make the most of the rising prices result in a buying wave that pushes values too high, so the fear of loss forces a reaction that inevitably depresses the prices of stocks below their true worth.

A little more specifically, a writer in the New York *Times* thus enumerates the chief causes of the decline:

> The necessity for the readjustment of price levels for many issues which have been selling at from fifteen to a hundred and fifty times their earnings, the result of over-enthusiastic public buying and pool manipulation.
>
> The loss of confidence in the general market situation by the public because of the repeated sharp declines since September 1.

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The continued pressure on the market by liquidation, especially in the "blue-chip" issues.

Selling by thousands of foreign holders, particularly in the railroad shares, and the return to their homes of the foreign funds which have been employed here.

Strategic selling for the decline by many powerful bears, who picked vulnerable spots for heavy selling.

Moderately lower ratios of operation in the basic industries, due to some extent at least to the high rate of business last summer, reflected particularly in the decline in iron and steel production, in automotive production, and in building operations.

In Washington, according to a Consolidated Press dispatch by J. C. Royle, no little stress is laid on the report that many of the investment trusts were pretty well "bought up," so that they became "a bear rather than a bull factor." Congress, too, is given a certain share of the blame by *The Wall Street Journal*, which remarks that "for the whole summer and fall the import trade of the country has been kept uncertain and exasperated by a needless extra session devoted to an attempt to knock together an indefensible increase in the general tariff." The New York *Herald Tribune* thinks the New York Stock Exchange is partly to blame for the panicky selling of the worst days, because the inadequacy of its present ticker service kept shareholders so long in ignorance of the course of prices. The New York *Journal of Commerce* asks this question:

Ought not a great deal of responsibility be assigned to those who so long have constantly urged the public not to become what they call "bears on the United States"? It would certainly seem so, and the only reason why public opinion refrains from visiting upon them the discredit which they deserve seems to be found in the fact that the average man recognizes perfectly well that such prophets have no sound basis of prediction, so that their utterances will always be taken with many grains of salt.

It is, nevertheless, a fact that we encourage and tolerate the presence of market analysts and forecasters who affect to know all about what is going to happen, and who stimulate a false psychology on the part of the public. What is happening to-day ought to throw a deep cloud of doubt and discredit upon them for a long time to come. Not only have they entirely failed to foreshadow any reduction of business such as is now occurring, much less a complete revulsion of prices, but they have for long months past asserted that business would be good throughout 1929, and that there was not the slightest reason to doubt that values would hold their own. Even at the present moment they do not hesitate to assert that stock values are very low, even in those cases in which they are far ahead of the book values or earning power. The idea of a "new era" in which economic laws are suspended or rendered obsolete, and in which a generally higher level for stocks all around is made to prevail, is a very favorite one. Much has been said of it, and even as yet, a great number of persons are reluctant to give it up.

It is in line with an age-old human tendency that there has been a zealous attempt to find a personal villain in the case, we read on the New York *Herald Tribune's* financial page:

When the first severe decline came into the market a number of commentators seized upon a well-known bear operator as the villain, but as the market break increased in its dimensions, others were rounded up. In some quarters the episode was classified as a "British plot" or a "French plot," while the "bankers," as a group, were arraigned by some and the investment trusts by others. The Federal Reserve came in for its customary amount of criticism, but in this instance it required quite a stretch of imagination to explain precisely what the Reserve had done to contribute to the panic, in view of the fact that the latter had studiously pursued a policy of easy money for some months past.

Incidentally, at this time we find the Reserve Board policy stoutly defended by the New York *Times* and *The Business Week* (New York), while the New York *Evening Post* thinks its "ineptness" had its share in "making the extreme ferocity of the crash."

But whoever was to blame, several writers earnestly contend that such a state of affairs should not be allowed to occur again. "Any attempt to force the stock market up again to its speculative heights, and thus precipitate another and perhaps worse collapse, would be to jeopardize the national prosperity," declares the New York *Telegram*. The problem now before us, insists the Philadelphia *Record*, is how to preserve and strengthen the stock-market system of wide-spread investment "without encouraging such orgies of speculation as that which has been interrupted at such heavy cost." We need something, so the New York *Journal of Commerce* feels, in the way of new management:

Fundamental to that management is the definite putting of an end to the speculative debauch through which this country has been passing. It is generally admitted that the type of financing which has been common during the past two or three months is nothing short of disgraceful in many instances. Our general banking management has been weak and indifferent. There has been a complete lack of leadership. The major part of these evils can be cured by putting a stop to the over-issue of unsound securities and by curtailing the immense volume of loans made for purely speculative purposes. The sound bankers of the country need to associate themselves, take the headship of affairs into their own hands, dissociate themselves from stock-jobbing interests, and bring about a restoration of safe practise on the part of financial institutions. It was often necessary to resort to measures of this kind during the pre-war period. It is entirely possible to follow once more the methods which were then employed to good advantage.

In order to get immediate and effectual results the essential thing is to determine upon turning over a new leaf, instead of attempting to perpetuate what has been going on during the past two years.

Heywood Broun has a moral he wants to draw in his New York *Telegram* column "from Wall Street's blue Thursday":

The general sentiment seems to be that this must never and can never happen again. And yet I have seen no practical suggestion as to how it is to be prevented. The eyes of Optimism are always bigger than its stomach. Sooner or later there will be another period of inflation and a subsequent crash and headache. That is as sure as death and taxes.

And the lesson of it all is that the economic structure under which we live is very far from perfect.