1929

Book versus market

Anonymous

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NOTHING has exemplified more concretely Einstein's theory of relativity than the recent debacle in the stock market. One might almost say the "common stock market." While common stocks slid off, bonds moved up, and preferred stocks were slow to show the influence of the general market.

The cause, or causes, are difficult to assign. Over-supply of new securities, in accordance with Mr. Kent's theory, may have been partially accountable. The manipulations of blind pools may have contributed their effect. A definite campaign of deflation may have been responsible. Or the time for gathering in the "fleece" may have brought about the result.

Whatever the cause, the effect has been an unparalleled decline in market values. Stocks which formerly had high sale and loan values have declined from one to two hundred points. Verily, this is a market so filled with bargains that the small investor is like a child before a resplendent candy case, with a penny to spend.

The decline has brought sharply to the attention the comparison of values as determined by the supply of and demand for certain stocks and the values of those stocks as determined by the books of account of the corporations issuing the stocks. Never before, perhaps, has the disparity between market values and values based on earnings been so apparent.

Statistics for the first nine months of the calendar year show that business generally has been moving ahead satisfactorily. What the effect of the present disturbance will be, it is safe to predict no one can foretell. Those who have been caught in the market probably will economize. Economy usually begins with luxuries, so that one may expect those industries which make and dispense luxuries to suffer some contraction in sales.

The concerns which have enjoyed good business during the first nine months of the year, have built up their surplus from earnings, and have kept a proper proportion of their assets in liquid form, probably will have little difficulty in continuing their cash dividends. Those corporations whose surplus is based in any substantial amount on assets which are priced at market values will be faced with a more difficult situation.

The get-rich crowd of individuals who were enamored of the market generally is sad to behold. The plodders who have saved their money and invested it intelligently, even in common stocks of conservative and substantial corporations, probably have nothing to fear on account of their investments. In relation to the market, many high-grade stocks, purchased a year ago, show a loss. In relation to the book value and dividend yield, they are as good as they ever were. All things are relative.