

Our Changing Economy

Paris News Upset Market But Little

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LAST week, the hopes of many of us for a beginning of disarmament—or, at least, a detente—were shattered. The fallibility of the world's leaders and the terrifying fragility of the present truce were exposed.

It is remarkable that this sudden and stark exposure caused almost no change in commodity and stock prices. At the end of the week, prices of stock listed on the New York Stock Exchange had changed less than one per cent, on the average, from those at the close of the preceding week.

How is it possible that such unexpected and momentous news should cause so little change in stock prices? After all, the price of a stock is simply a present valuation of prospective earnings. Were these not changed?

Many people bought and sold stock. On Tuesday, over 4 million shares were traded on the NYSE and on Wednesday, 5¼ million. Some sellers were just scared; others may have reasoned that greater insecurity would cause higher defense expenditures, higher taxes and lower earnings. Some buyers may have gambled on the inflationary consequences of increased defense spending—or, on "the whole thing blowing over" In some cases the same fears and imagined consequences induced some people to buy and others to sell. It's crazy, but that's what happened.

Stock trading, like other forms of gambling, can be dictated by the simplest kind of visceral impulse and also by the most involved calculation. Some traders and poker players give a good deal of weight to what they think other traders and players will do—even to what they think others think they will do.

At times, it's like the beauty contest described by Lord Keynes in that brilliant 12th chapter of his "General Theory of Employment, Interest and Money." Each competitor has to pick not necessarily those faces he thinks are the prettiest but those which will be judged the prettiest by others who may be looking at the problem from the same point of view.

Up or Down this Week? Who Knows?

On Wednesday, the Deputy Secretary of Defense went before Congress to advocate an appropriation slightly less than that requested in the Administration's budget of last January, saying that the collapse of the summit meeting created no need for additional expenditures. Maybe in the weeks ahead this assessment will be changed.

Sometimes reappraisal is sudden; other times gradual. Maybe in the coming weeks, stocks will be revalued, as people consider further the possible consequences of last week's fiasco.

In any case, last week's news was a reminder of what a gamble it all is—even life itself, for it's only the minor hazards of life that we can insure against. The risk of loss of one's wealth, though not the greatest of risks, is inescapable. No financial intermediary, no counsellor, can protect us. Also, it's utter nonsense to think that the movements of stock prices can be understood by reading the financial pages, or predicted by charts or formulae.

The financial press provided no inkling of the \$1½ billion drop in market value of stocks listed on the South African Stock Exchange in the last ten days of March, following the first defiance of racial decrees. Some highly respected industrial firms and reputable financial institutions in the United States were caught with huge investments, which in some cases they had added to over the past year.

The financial community may know a lot of after-the-event facts. But where can one go for unborn facts—for insights about future political currents, future fruits of research and new directions of consumer spending?

Variation Since Jan. 1

Let anyone who has illusions about the financial community review the extraordinary variation since the first of the year in the prices of stock listed on the New York exchanges. Note those stocks that have fallen by one-third and those that have risen 50 per cent or more in this short time. Then examine so far as possible the orders placed by investment funds and trustees, and the recommendations of "professional" and "reputable" members of the financial community in the months preceding.

I've heard it said that one should buy only those stocks recommended by persons of experience. But which persons? . . . I've heard it said that "over the long pull" stocks pay off. But it can be a very long pull for those who buy at the peaks . . . I've heard it said that one should never invest without knowing the facts. But, what facts?

Clara, in the play "Clandestine on the Morning Line," when accused of jumping to conclusions without sufficient facts, says: "What other way is there? A fact ain't nothin but a tired-out conclusion and a conclusion ain't nothin but a new-found fact. And it's all too confusin' for me. I'm gonna put my faith in Roger Clark and Lily Ruth and Clandestine on the Morning Line". . . . Clandestine is a horse.



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