Pls Return

by Benjamin Graham

The Future Of Common Stocks

The following article is taken, with slight revisions, from a paper prepared for delivery before a group of corporate pension executives in June 1974. The last half of the article aims to answer specific questions raised in connection with the address.

Before I came down to Wall Street in 1914 the future of the stock market had already been forecast—once for all—in the famous dictum of J.P. Morgan the elder: "It will fluctuate." It is a safe prediction for me to make that, in future years as in the past, common stocks will advance too far and decline too far, and that investors, like speculators—and institutions, like individuals—will have their periods of enchantment and disenchantment with equities.

To support this prediction let me cite two "watershed episodes"—as I shall call them—that occurred within my own financial experience. The first goes back just 50 years, to 1924; it was the publication of E.L. Smith's little book entitled, *Common Stocks as Long-Term Investments.* His study showed that, contrary to prevalent beliefs, equities as a whole had proved much better purchases than bonds during the preceding half-century. It is generally held that these findings provided the theoretical and psychological justification for the ensuing bull market of the 1920's. The Dow Jones Industrial Average (DJIA), which stood at 90 in mid-1924, advanced to 381 by September 1929, from which high estate it collapsed—as I remember only too well—to an ignominious low of 41 in 1932.

On that date the market's level was the lowest it had registered for more than 30 years. For both General Electric and for the Dow, the highpoint of 1929 was not to be regained for 25 years.

Here was a striking example of the calamity that can ensue when reasoning that is entirely sound when applied to past conditions is blindly followed long after the relevant conditions have changed. What was true of the attractiveness of equity investments when the Dow stood at 90 was doubtful when the level had advanced to 200 and was completely untrue at 300 or higher.

The second episode—historical in my thinking—occurred towards the end of the market's long recovery from the 1929 to 1932 debacle. It was the report of the Federal Reserve in 1948 on the public's attitude toward common stocks. In that year the Dow sold as low as 165 or seven times earnings, while AAA bonds returned only 2.82 per cent. Nevertheless, over 90 per cent of those canvassed were opposed to buying equities—about half because they thought them too risky and half because of unfamiliarity. Of course this was just the moment before common stocks were to begin the greatest upward movement in market history—which was to carry the Dow from 165 to 1050 last year. What better illustration can one wish of the age-old truth that the public's attitudes in matters of finance are completely untrustworthy as guides to investment policy? This may easily prove as true in 1974 as it was in 1948.

Benjamin Graham, senior author of Security Analysis, *first edition of which appeared in 1934, needs no introduction to the readers of this magazine.*