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INVESTMENT MANAGEMENT

As We See It

It is a sort of automatic assumption of the human mind that present conditions will continue, and our whole scheme of life is necessarily based to a great degree on this assumption.

<u>Psychology of the Stock Market</u>
by George C. Selden--1912

When confronted with a crisis of enormous proportions and of great uncertainty, like the one we are now witnessing in the Persian Gulf, the natural preoccupation is understandably on the events of the moment. It is difficult to look into the future because the outcome of the crisis is so unclear. The best that can be done is to balance the various probabilities against each other. As the emergency wears on, there is a tendency to concentrate more and more on the negative probabilities.

This certainly has been true with the present situation in the Middle East. The probability of a peaceful resolution to the problem seems increasingly elusive. But we know from past experience that crises such as these are resolved in due course and the world goes on about its business.

It is instructive to look at past crises and their impact on the stock market. In a recent report, Raymond DeVoe, an economist with the New York brokerage firm Legg Mason Wood Walker, evaluated the impact of eight post-war crises on the stock market. His calculations appear on the reverse side of this report.

During each of those declines there was what seemed to be a plausible doomsday scenario that terrorized investors. The present crisis, like those previous crises, is bringing out the worst fears. Maybe this is the time when the doomsday scenario is correct and real estate, leverage, and the banking system all converge in a decline which brings the financial system to its knees.

We, of course, do not know how this eventually plays out. Therefore, our inclination is not to take an extreme position but rather to continue with the balanced and diversified approach which has served us well in the past. And, knowing that the future will be different and hopefully better than the present, look for opportunities during periods of extreme pessimism.

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Dow Jones Industrials During Eight Postwar Crises*

	High Before Crisis	Crisis Low	Percent Decline	Duration in Weeks	Level Six Mos. After Low	Twelve Months
1. Korean War June 1950	228.38	197.46	-14%	4	249.58 (+26)	260.70 (+33%)
2. Sputnik Technology Crisis October 1957	465.82	4,193.78	-10%	3	455.86 (+9%)	546.36 (+30%)
3. Kennedy vs. U.S. Steel April-June 1962	705.42	535.76	-24%	9	653.99 (+22%)	726.87 (+36%)
4. Credit Crunch April-May 1970	792.50	631.16	-20%	8	794.09 (+26%)	950.82 (+51%)
5. First OPEC Oil Embargo Oct.-Dec. 1973	987.06	788.31	-20%	6	869.92 (+10%)	577.60 (-27%)
6. Nixon Resignation August 1974	797.56	627.19	-21%	5	749.77 (+20%)	835.34 (+33%)
7. Hunt/Granville Silver Crisis March 1980	856.48	759.98	-11%	4	974.57 (+28%)	1,015.22 (+36%)
8. The Crash October 1987	2,640.99	1,738.74	-34%	3	2,015.25 (+16%)	2,183.50 (+26%)
Average of 8 Crises			-19%	5	+20%	+27%**
**leaving out #5 it is +35%						
9. Iraq invades Kuwait August 1990	2,899.26 (Aug. 1)	2,483.42?? (Aug. 23)	-14%	3 (to the low so far)	?	??

*Source: The DeVoe Report, Vol. XII No. 32, September 20, 1990