As We See It

"I don't know where it's going to stop except at the end."
- Yogi Berra

Since 1982, investors have been enjoying the third secular or long-term bull market of this century. The first secular rise ran from 1920 to 1929 and the second one covered the period from 1949 to 1968. The present – fifteen-year and counting – secular bull market will eventually succumb to a bear market as well. For now, it has yet to run its course.

While these three secular advances have numerous similarities, the esteem in which investors hold stocks changed greatly from the first rise to the present advance. In the 1920s stocks were considered speculative. Robert Sobel, a professor of business history at Hofstra University who teaches a course in the financial history of the twenties, stated in a *Barron's* article that during the 1920s, "Investors put their money away in bonds, while equities were for the rich to use for short-term speculation, not saving."

However, the general population eventually caught the speculative fever. According to Frederick Lewis Allen in *The Big Change*, "Not only were financiers and businessmen of high and low degree speculating, but housewives, ranchers, stenographers, clergymen, elevator men – whoever could lay their hands on some cash. . ."

"Just how many people were speculating in stocks during those wild years is unknown, but probably a million or so were buying on margin – putting up only a fraction of the price of the stocks they bought – and a million or two more . . . were paying cash in full for their purchases. . ." according to Allen. Sobel puts the number at no more than 15% of the adult population at the height of the 1920's bull market. Today, in contrast, more than 40% of adults are stock market investors – either directly or through a 401(k) retirement plan.

Investors in the 1949-1968 bull market had vivid memories of the 1930s and the financial mayhem that followed the Crash of '29. Hence, "don't invest any more in the stock market than you can afford to lose" was a common attitude expressed by stock market pundits during the 1950s and 1960s. Therefore, while a much larger percentage of the potential investing public eventually invested in the market than was the case in the 1920s, they did so with a relatively small percentage of their assets. According to Federal Reserve data, Americans had slightly more than one-third of their wealth in stocks and mutual funds at the stock market peak in 1968.

This time around, a much broader swath of the population is involved. America's middle class holds the stock market in high regard and thinks of it as the best place for long-term retirement savings. In fact, buying stock has come to be seen as a near necessity – the only prudent way to save for college tuition and retirement. Hence, a larger portion of the population than ever is investing in stocks. Moreover, since stock market returns have been so stellar for the past fifteen years, investors are now fervent believers in the future potential for superior returns from stocks and the percent of their wealth invested in stock is now well in excess of what it was at the previous peak in 1968.

It is not only individual investors who embrace equities. Last month New Jersey sold $2.8 billion of bonds, the proceeds of which were used to fund the state's pension plan. The strategy is to borrow money to invest in stocks in the belief that the return they generate will exceed the interest paid on the bonds.

The confidence the public has placed in stocks has increased with each successive twentieth–century secular bull market. This confidence is now at an extremely high level and is expressed through today's record valuations. While the good times may last for several more years, we are cognizant that Wall Street is not a one-way street. Someday, something will happen to cause a change in direction. Prudence dictates that at times such as these, investors should be mindful of their long-term objectives. From this, they will gain the resolve to maintain a stock/bond/cash balance which is appropriate for their temperament and their stage in life.

June, 1997