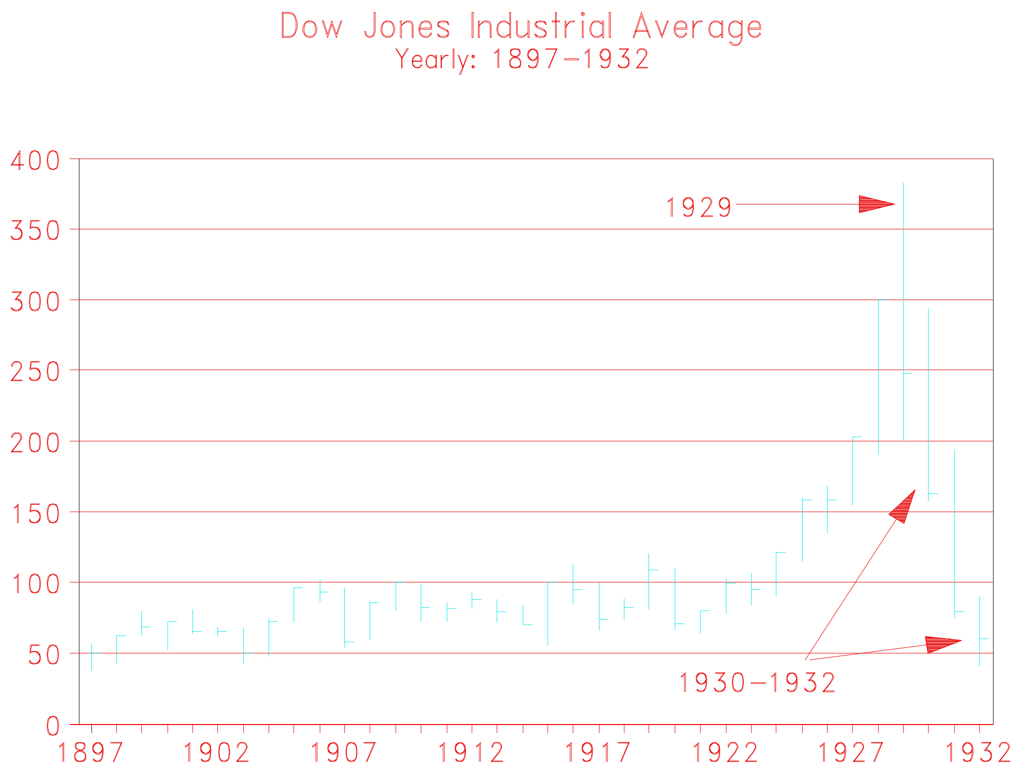
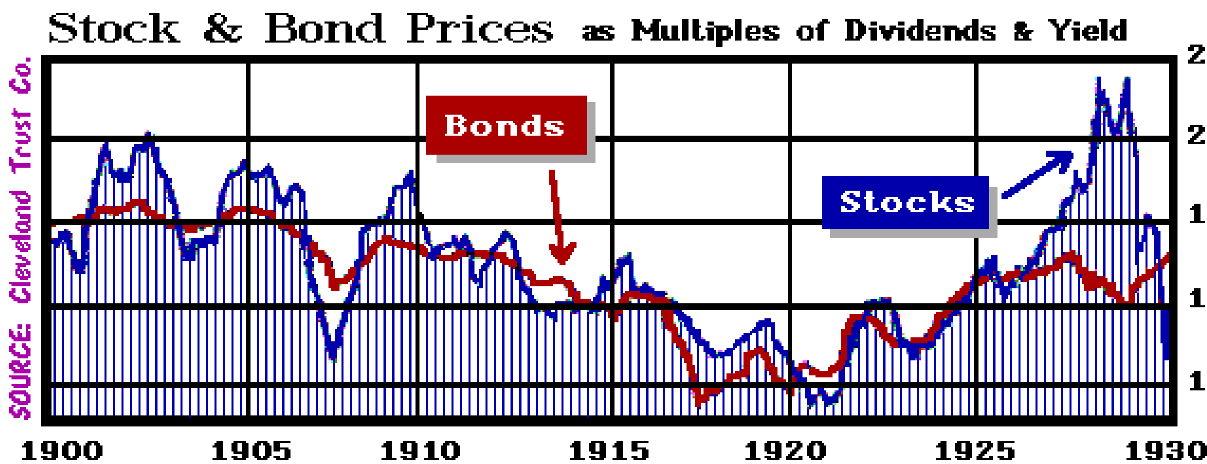
As 1929 came to a bitter end, everyone was still trying to sort out the facts from the fiction. Had the market indeed risen to heights that could not be justified? What caused the rally and was the correction into November 13 merely a pause in the long-term trend? Would the actions of men such as President Hoover, Rockefeller and Rosenwald stem the tide and restore prosperity once again? These are but a few questions that plagued the nation as well as the financial community. In addition, many worried desperately that the destruction in the stock market would spill over into the general economy. As 1930 dawned upon the chaos that man had brought down upon himself, optimism still ran high that all the prominent men of the day clenched within their fists the power to command the future.

National City Bank released a survey on business and its earnings for 1929 compared to those of 1928. Although the survey issued during the latter part of January 1930 was incomplete, it was a fair analysis of the situation, which included 806 companies from the American economy. This report demonstrated that there was an overall gain of 12.5% in corporate earnings for 1929 above the preceding year. The report was also broken down into industry groups, which are still of interest to us today. The largest benefactor during 1929 was the amusement companies, which posted a gain in earnings of 85.6%. The steel and iron industry also reported earnings up 70.7%. Next on the list was the shipping industry, which reported earnings up 67.3%.



There were definitely losers as always. Surprisingly, these included the automobile industry, which was down 10.2%. Fertilizer companies were off 21.1%, while the sugar industry reported a drastic decline. In 1928, the sugar industry posted earnings of $5.3 million but in 1929 that turned into a deficit of $1.5 million.

During 1929, a total of 38 U.S. corporations had paid out dividends in excess of $10



million. This was a sizable figure in those days and if adjusted to current dollars through the official government CPI, it works out to be in the neighborhood of $200 million+ in 1985.

The biggest dividends for both 1928 and 1929 were paid out by General Motors. In 1928, G.M. paid $165 million in dividends while in 1929 that was reduced to $155 million. Below is a partial listing of a few selected stocks **and the total amount**s of dividends paid out during 1929 compared to their previous year. The amounts expressed below are given in millions of dollars.

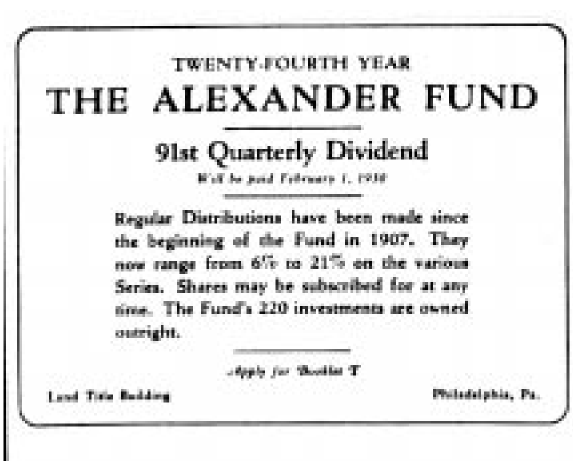
CORPORATE DIVIDENDS

Company	1929	1928
General Motors	$155.0	$165.3
AT&T	116.0	103.8
U.S. Steel	63.0	49.8
Du Pont	60.1	49.6
Stand Oil NJ	46.7	36.5
Kennecott	43.9	32.9
General Electric	43.2	42.2
Anaconda	42.7	14.4
Standard Oil Ind	40.0	32.4
Consolidated Gas	34.8	23.9

There is no doubt that 1929 was a year of spectacular economic growth. In the aftermath yet to come, many companies increased their dividends in an effort to try to support their own stocks. But logic and fundamentals did not prevail in the months that lay ahead. As a result, many companies expended cash that otherwise should have been retained. Dividends rose in many cases while earnings declined. The increase in corporate dividends was not truly warranted and they failed to provide psychological stability in the market.

The reasons for the Crash were difficult to put a finger on at this point and indeed arguments would fester for years if not decades to come. Nonetheless, during the first quarter of 1930, most believed that the Crash of 1929 was a short-lived situation. A number of well-known analysts pointed to value and earnings as reasons why the market was fundamentally sound. But perhaps the losses were too great and traders simply lacked nerve. Nonetheless, it is significant that the auto industry had built the bull market with spectacular earnings and expansion during the early to mid-1920s. Even the assembly line innovations developed by Henry Ford helped improve other industries as well. But take a look at the table above on corporate dividends. G.M. was the largest producer of dividends throughout the raging bull market, yet 1929 was a year during which G.M.'s earnings had declined and this was counter to the general overall trend of corporate America. It is also important to remember that G.M. peaked in early 1929 well in advance of the broad market. This is something we should carve into our brains. When the leaders peak yet the broad market continues to charge off into new highs, a major top is not too far away.

The Boston News Bureau chose to look upon the stock market in a very unique way at that time. The Bureau attempted to prove that the decline during the last quarter of 1929 was merely a correction and that the market remained fundamentally sound and stocks were far from actually being overvalued.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The Boston News Bureau devised a method of judging what they termed "equivalent value." For General Motors, for example, they took the 1923 high of $17.50 and followed this stock up to 1929 through various forms of analysis. G.M. went through a reverse split. One new share of G.M. was given for four old shares. This reduced the outstanding stock to one quarter. Then G.M. declared a 50% stock dividend, which was later followed by a two for one split which doubled the outstanding supply. Then this was followed by a two and one-half split. Therefore, the Bureau ventured that the 1929 low was $168.375 but the equivalent value was actually $672 in terms of the original shares of 1923. Of course, this didn't mean much to the person who bought G.M. after all the splits.

This exercise in numbers basically concluded that although the market had fallen by nearly 50%, it was still substantially above the "equivalent" values for 1923. Below is a listing of some selected stocks illustrating the 1929 low point for the Crash and the Boston News Bureau's "equivalent" value.

Stock	'29 low	BNB/eq	'23 high
Allied Chemical	197	197	112
American Can	86	516	107
AT&T	193	193	128
Anaconda	70	70	53
Atlantic Refining	30	120	160
Baltimore & Ohio	105	105	60
Du Pont	80	560	148
General Electric	168	672	202
General Motors	33	63	17
Intl Harvester	65	260	98
Kennscott	49	98	45
Montgomery Ward	49	49	26

Otis Elevator	195	390	153
Radio Corp (RCA)	26	26	4
Standard Oil NJ	4 8	48	44
Studebaker	38	95	126
Union Carbide	59	177	67
U.S. Steel	150	210	123
Woolworth	52	313	290

*fractions have been omitted from the above quotes for highs and lows.

There is no doubt that the market held above the peaks of the 1923 period. There were selected stocks that still retained their value on a long-term basis even in the depths of the Crash in late 1929. But was this significant? Did this prove that the 50% decline was merely a reaction, a pause in the long-term uptrend? Would the market in fact rebound if the Fed lowered the discount rate back to 3.5%? Was it truly that simple?

Many believed in this line of thinking. They viewed that stocks had reached a major low back in November of 1929 and that with an easing on the part of the Fed, the market was now ripe for a rally during the first quarter of 1930.

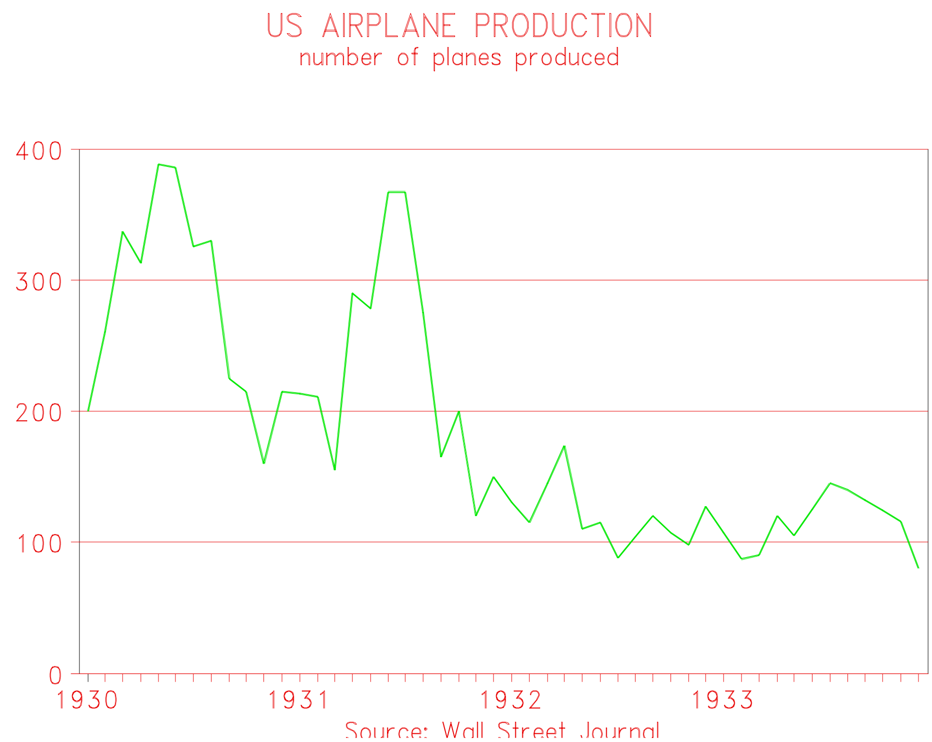
Professor Irving Fisher of Yale University stated that he believed that the market had reached a new plateau. He wrote a book entitled the "Stock Market Crash and After," which was published by Macmillan Company on December 15, 1929 and copyrighted February, 1930. The title implied that he had assumed that the decline was over. Professor Fisher's analysis was strictly fundamental and explored the various ways of looking at the market from dividends and earnings in comparison to price. He concluded that everything substantiated the fact that the market was basically sound and that reason for optimism did in fact exist. But curiously enough, Professor Fisher ended his book with these words:

Irving Fisher

"As a means of further present reassurance I trust that the book itself will be of some use, besides affording substantial reasons for practical optimism for the future.

"The only 'fly in the ointment' is the danger in a few years of gold shortage and long gradual deflation like the deflations after the Civil War and after the Napoleonic Wars. And even this danger may be averted if wise banking policies and gold control are adopted in time. For the immediate future, at least, the outlook is bright."

Perhaps Professor Fisher couldn't have been more incorrect. The immediate future was far from bright. Optimism ran fairly high during the first quarter of 1930 and most subscribed to the concept that the market remained fundamentally sound. But let us give credit where credit is due. In the end, Fisher's "fly in the ointment" seemed to bring along with it a number of friends. The long protracted deflation and a gold shortage indeed developed, which turned Fisher's optimism to cold hard pessimism.

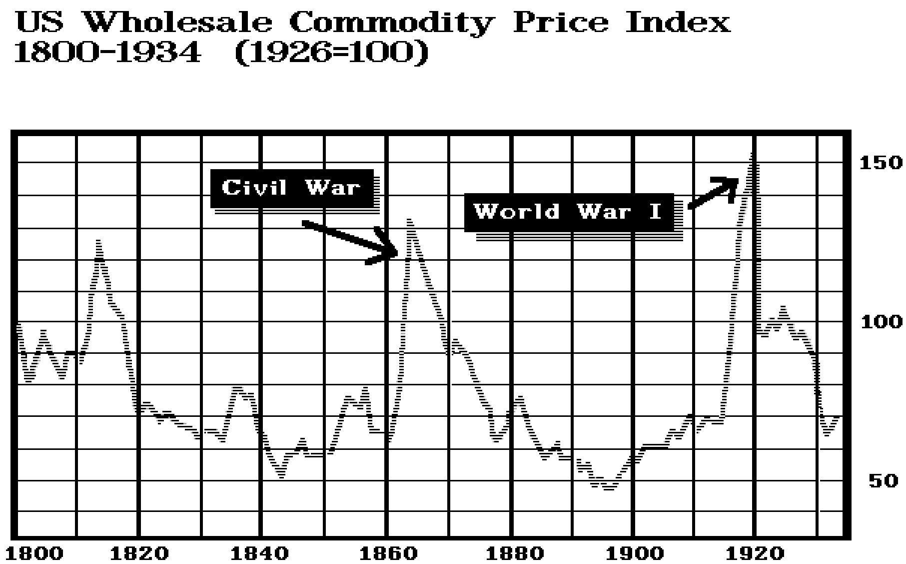


From the depths of the panic in late 1929, the market began to recover moving through the first quarter of 1930. From the November 1929 low, the railroads had managed to climb back up from under the 130 level to nearly 158 by March. The rails had fallen hard during the panic of 1929 from nearly the 190 level to slightly below 130, coming close to scoring a one-third decline. December 1929 had closed lower than November but it held above the 142 level. January and February had both closed higher than the previous month and by March, the rails had regained about half of the loss from the peak of 1929 to the November low. In technical terms, the first quarter of 1930 was clearly a 50% reaction and nothing more.

The industrials, which had peaked at 386 in 1929 and had fallen during the panic to slightly below the 200 level, came close to reaching 300 once again but stopped a little shy of that key level by March. The industrials had fallen nearly 50% during the panic of 1929 and the first quarter was clearly a rally which retraced 50% of the losses incurred during the panic of late 1929.

The bond market had moved counter to the trend in the stock market during late 1929. This was caused by the old school of thought which professed that investors buy bonds while gamblers buy stocks. Therefore, the initial urge of capital was indeed to run back to bonds from which it had fled beginning in January 1928. But despite a severe decline in interest rates, bonds eventually collapsed as public confidence gave way moving into 1932.

January and February were rather dull periods at first as the stock market tried to pick itself up from the trough of devastation. It was in March of 1930 when the call money rate had declined back to 2%, clearly displaying that the demand for money from the speculative aspect of the market had dwindled. The bonds soared in a straight and abrupt fashion during March, rising from 94 to slightly above 96. In those days, 2 point moves were still far from com-



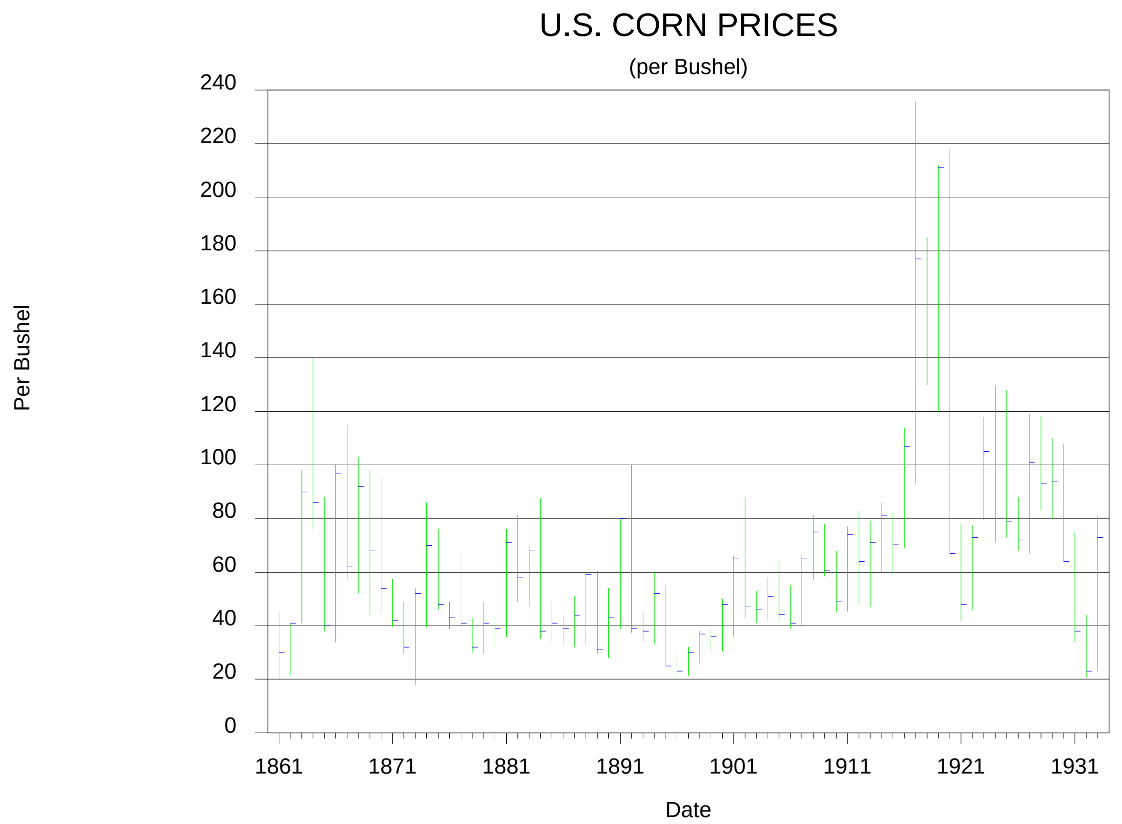
monplace during the course of a single month.

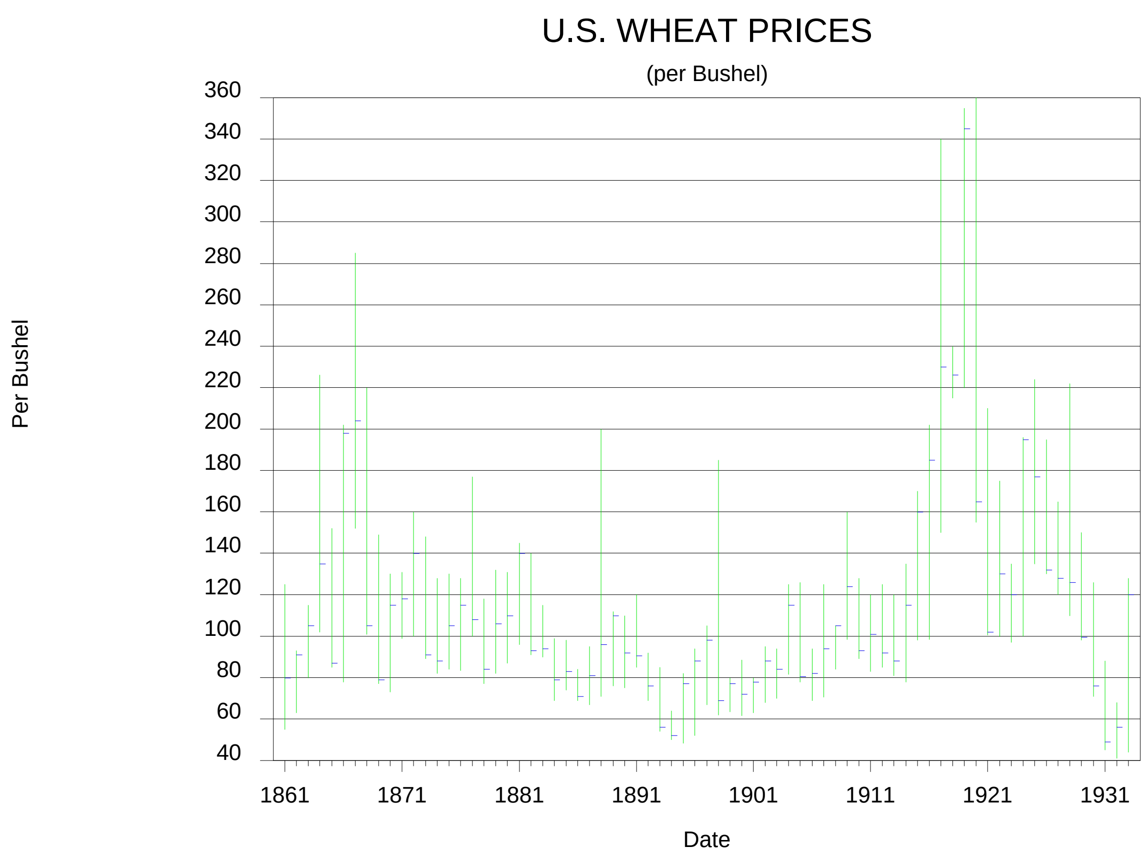
The bonds remained steady during January and February despite the Fed's cut in the discount rate during February from 4.5% to 4%. But then in March, the bonds were aided by a second cut to 3.5%. Here the Fed had cut the discount rate from 6% to 3.5% in just seven months in an attempt to halt the drastic decline in the economy. Interest rates literally plummeted straight down during the first quarter of 1930, but even this rapid retreat by the Fed did not prevent the retribution it seemed destiny demanded.

The opinions of the market were still optimistic, particularly during March. With easing on the part of the Fed and a President who was trying desperately to prevent a decline in economic activity, many felt that the November 1929 low just had to be "THE" low. But despite the fact that first quarter earnings were expected to be mixed, there was a decisive weakness that many perhaps refused to admit. That weakness could be seen in the sharply lower levels of volume.

By February 1930, the depression in the luxury industries widened. They were the very first to make the hard-hit list. Behind the diamond dealers, the fur industry suffered badly. Within three months of the September high, fur prices began to tumble. By January 1930, furs were off 35% and continued to decline. By February, wholesale prices had dropped 50%. The only furs which seemed to hold relatively unchanged were raccoons, largely due to the normal seasonal demand.

Another industry in which stocks were very hard-hit was the new and upcoming "air stocks." The airlines were not the big giants of today. This was the new, risky industry that had ridden on the tails of the automobile industry. The total combined value of the air stock group in 1929 was $1.16 billion. That was the value the market had placed upon the outstanding issues of this industry. But by January, the market which gaveth, tooketh away. As 1930 be-


U.S. CORN PRICES
(per Bushel)
Per Bushel
240
220
200
180
160
140
120
100
80
60
40
20
0
1861
1871
1881
1891
1901
1911
1921
1931
Date


U.S. WHEAT PRICES
(per Bushel)
Per Bushel
360
340
320
300
280
260
240
220
200
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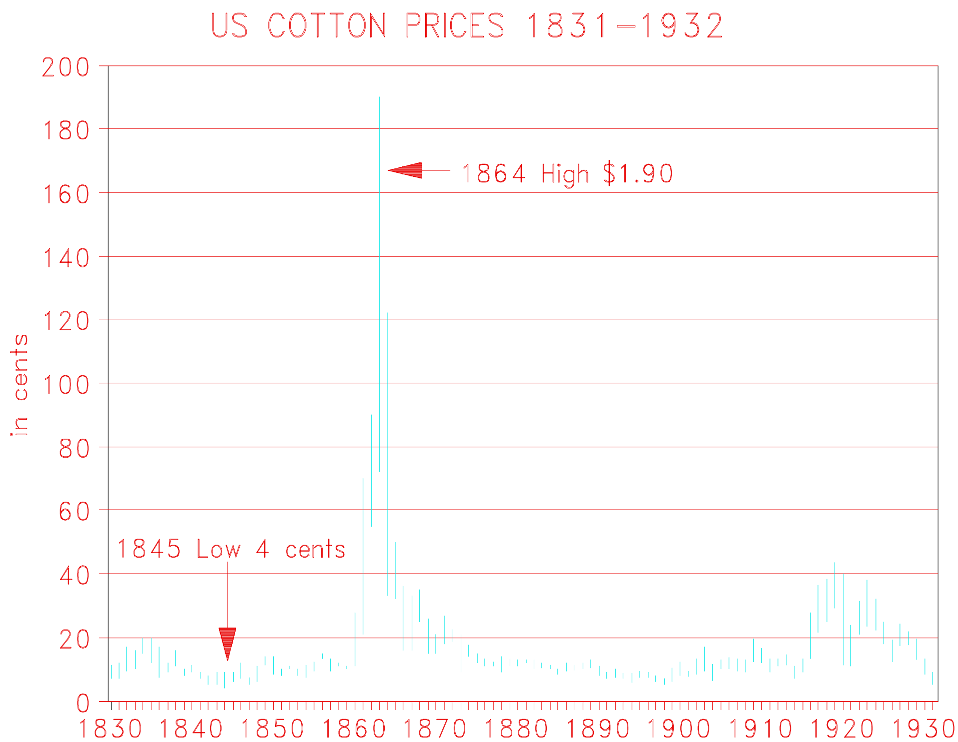


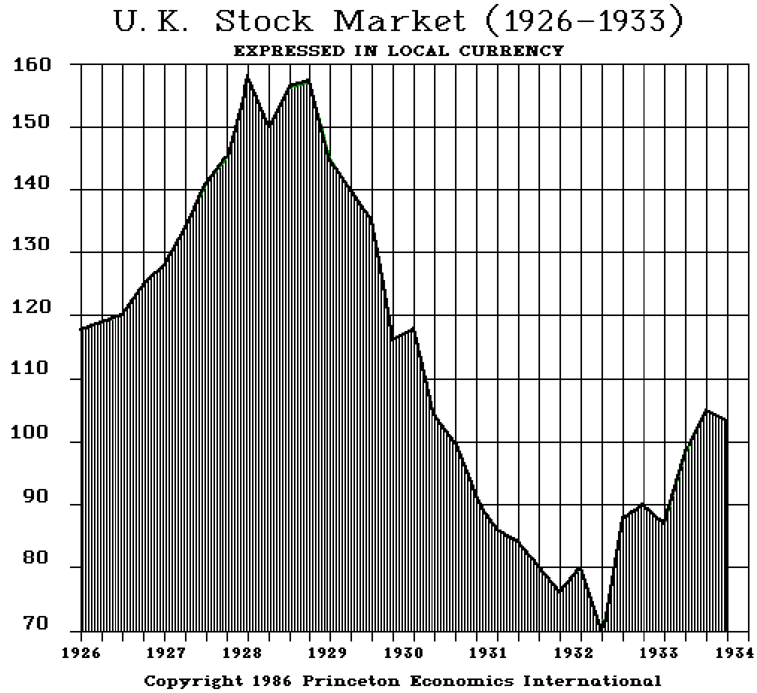
gan, this group of stocks was valued at only $284 million by the marketplace.

The air industry began to regroup during 1930. United Airlines was formed at this time by a merger of Boeing Transport with National Air Transport. TWA came forth from the merger of Transcontinental and Western Air. American Airlines was born out of a merger of Robertson Aircraft and Errett Cord, the founder of Auburn Motors and producer of the first front-wheel drive car named the Cord. This age of mergers among the airline companies helped preserve that industry by cutting costs and sharing assets, which enabled it to survive the Great Depression that followed.

In January 1930, Irving Fisher began to change his tune shortly after his book had gone to the publisher. At a meeting called by the State of New York seeking to revise its utility laws, Professor Fisher was called upon for his opinion. Fisher admitted that he had not studied the utility industry and as such was unprepared to render an opinion. But he made a little speech, which did manage to hit the press. He was quoted as stating: "The U.S. is headed toward a period of business depression, probably beginning within the next two years, which may exceed that which preceded the War...The only thing that will save us is a new gold policy or the discovery of a new process or additional gold fields. If the fall of gold production is not prevented by design or accident we shall throttle business, wringing out all profits and experiencing all the evils of deflation."

Professor Fisher's prophecy in fact came true. But whether or not increasing the money supply, which in effect was increasing gold production, would have prevented that deflationary cycle is highly unlikely.

The downward momentum of the economy was incredible. Can you imagine a period of less than two quarters in which steel production utilization dropped from 95% to 60% of capacity in such a short time span? The severity of this decline was sharp



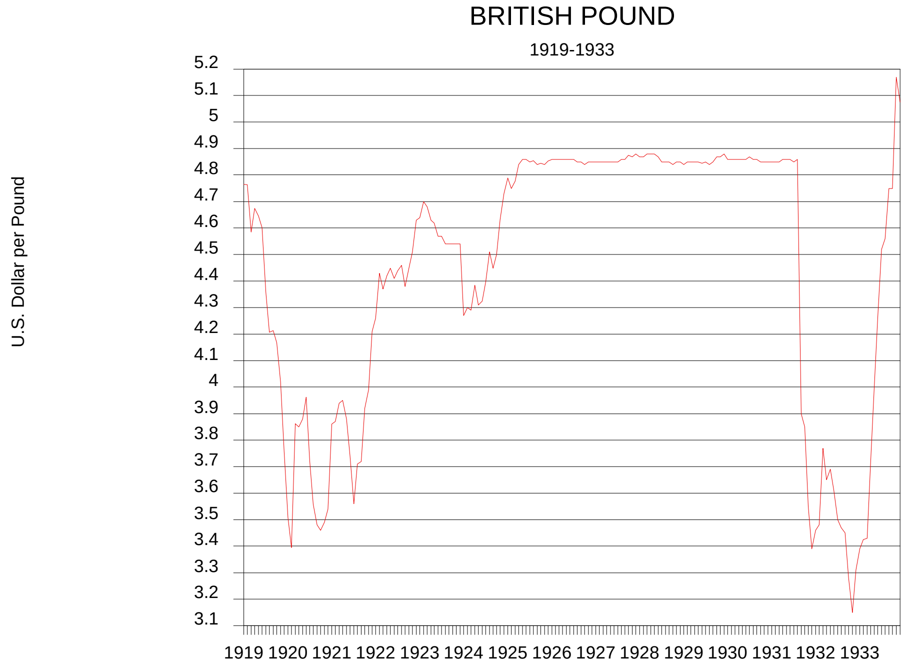
and clearly an omen of things yet to come. By January, Century Fox, the motion picture producer, went into receivership.

Commodities continued to decline in value from one end of the spectrum to the other. Magnesium, which was produced by Dow Chemical, had fallen from $5 a pound to 48 cents. Zinc fell moderately in comparison from $6.70 per ton to $5.40. Those who would have liked to blame the entire event upon the stock market and the feverish speculation of the era would have a hard time explaining the drastic decline in commodities at this early stage in the game.

Cotton, which had rallied to 44 cents during the 1919-1920 inflation period, had remained in a long depressed bear market since the major high at $1.90 during the Civil War in 1864; it had fallen sharply into early 1922, dropping to 11 cents. But during the initial stages of recovery, cotton managed to rally back to 37.5 cents in 1924. But from then on, cotton declined steadily. It reached a temporary low in 1927 and rallied briefly when the Fed cut the discount rate to 3.5%. But when that intervention clearly became temporary, cotton turned downward very sharply from its peak in 1928 at 24 cents. 1929 saw cotton fall back to 18 cents during the November panic, but the first quarter in 1930 was not much of a recovery for cotton. The high for 1930 was 19.5 cents and from April on, cotton plummeted, dropping by year end to 12.5 cents. By 1932, cotton would fall to 5 cents, barely holding the major low of 4 cents which had been established way back in 1845.

Copper was one commodity which had resisted the downtrend. While wheat was down 15%, silver off 16% and lead off by 13% from mid-1929, copper had remained steady at the 18 cent level. But during the first quarter of 1930, copper fell to 14 cents in a single move. Now even this commodity was off 22% from the mid-1929 level.

The first quarter of 1930 was filled with mixed news about U.S. industry. But in Europe, one man who would eventually leave his mark on the depression was hard at work trying to expand his monopoly. Ivar



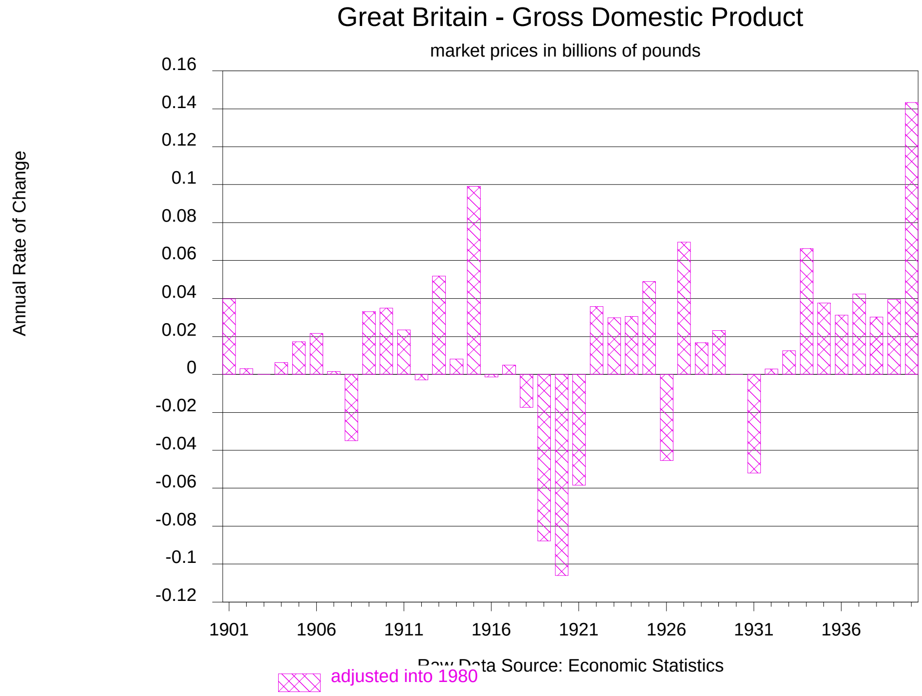
Kreuger and his Swedish Match Co. proposed to lend Germany $125 million at 6% in return for a German monopoly on matches. The proposal stirred up quite a fuss. The Finance Minister warned that if they did not accept the loan, Germany would suffer a 273 million mark deficit. The proposal was accepted on a vote of 240 to 145. Everyone believed that Kreuger was one of the richest men in the world, a fallacy that would later help the depression bring prices down even further once his schemes were finally revealed.

In London, the markets were nervous indeed. However, a well-known local broker wrote to his clients in his newsletter that shocked the British financial establishment. The broker was Oswald T. Falk, a member of the distinguished London house of Buckmaster & Moore. Falk actually advised all of his clients to sell their entire holdings of British stocks and buy those of the United States or perhaps even some colonial enterprises in Canada. His comments are still as interesting today as they were shocking to those who read them then. He stated:

"I believe that the industrial prosperity of England is much more than temporarily depressed, and that we are some way down the road of a long decline, at the end of which we shall find our relative industrial position entirely different from what it was in the 19th Century... I would sell the shares of almost all British industrial companies operating at home, particularly the shares of the older industries.

"I believe that the economic, political and climatic advantages of the U.S. and Canada during the next few decades will be so overwhelmingly great that these countries offer the most attractive field for investment. There is room for immense expansion and the desire for it. Wealth is the main objective, the pace will be hot, and the profit high.

"I think it is quite wrong to believe that the currency chaos of the last ten years will now be replaced by a long period of calm stabil-

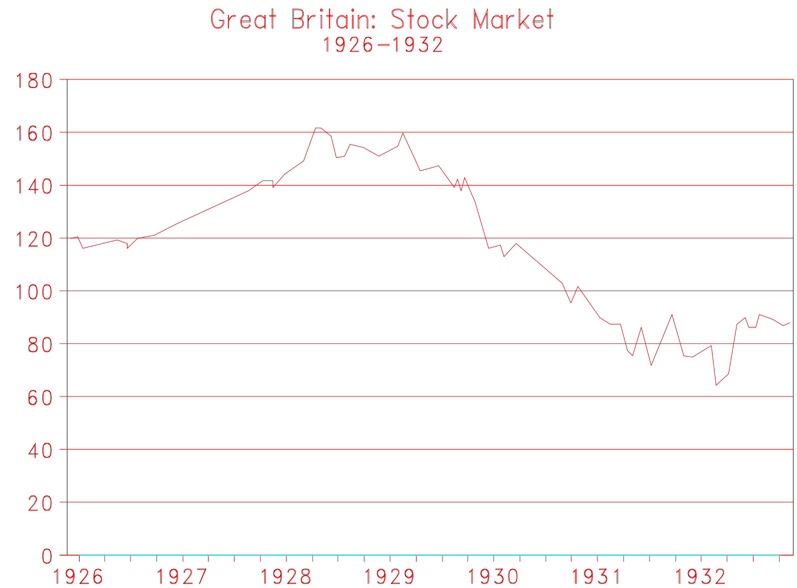


ity similar to that of the 19th Century. On the basis of this view, I would invest a large part of any fund in the strongest currency in the world, the American dollar."

You can imagine that what Mr. Falk wrote was shocking coming from such a distinguished house. Some literally called him mad, others a traitor. But the feeling that he absorbed from the market was unique and pure. Although Britain would maintain the facade of the gold standard until August of 1931, the actions of the pound thereafter, falling from $4.86 to nearly $3.10 by November 1932, clearly support the keen observations of Mr. Falk.

Indeed the manipulation of the central banks under the leadership of Benjamin Strong, Governor of the New York Federal Reserve, came to a bitter and devastating end. For all the intervention and manipulation could not support foreign currencies perpetually and prevent the dollar from rising once again. When that facade caved in, it did so with style and with more abruptness than if the central banks had left the free market alone in the first place. Curiously enough, although most politicians agree that protectionism was a major error which caused the Depression and must be avoided in the 1980s, they fail to see how the manipulation of foreign exchange and interest rates disrupted the marketplace and increased volatility.

Although the U.S. stock market had declined sharply from the 1929 high, Falk's recommendation was not such a bad call. All stock markets fell sharply but as the pound fell, even declining U.S. stocks rose in terms of foreign currencies. Falk had the amazing insight into the future and his personal pride as a Brit did not stand in his way of stating what he believed would be the final result. He had the foresight to see through the artificial value of the pound, which had been achieved through central bank intervention. In his mind, it was only a question of time before the natural forces would take hold. The decline of the British industrial era began with alarming proximity to the forecasts of Oswald T. Falk.


Great Britain: Stock Market
1926-1932
180
160
140
120
100
80
60
40
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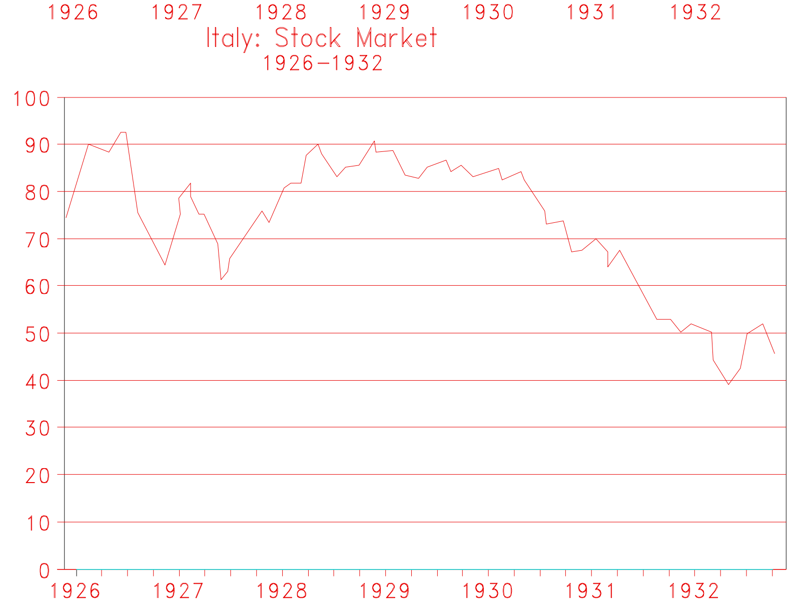
1931
1932


Italy: Stock Market
1926-1932
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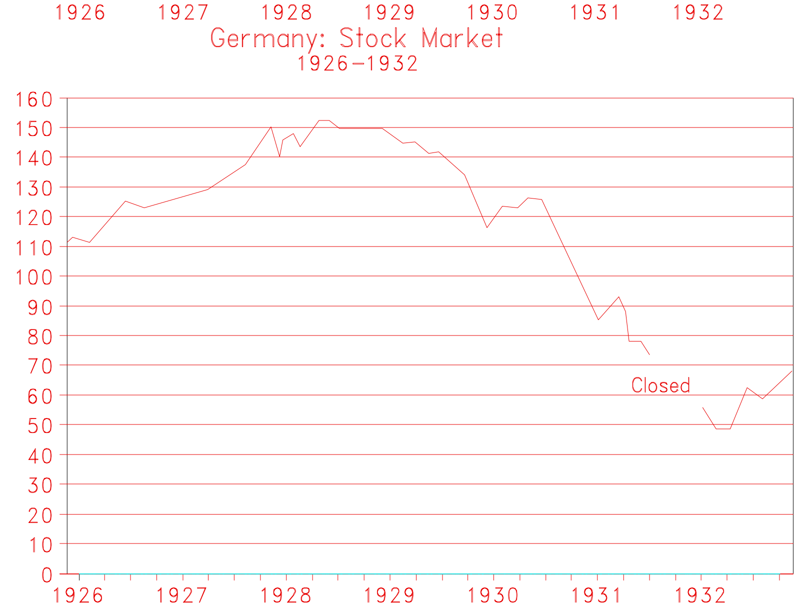
Germany: Stock Market
1926-1932
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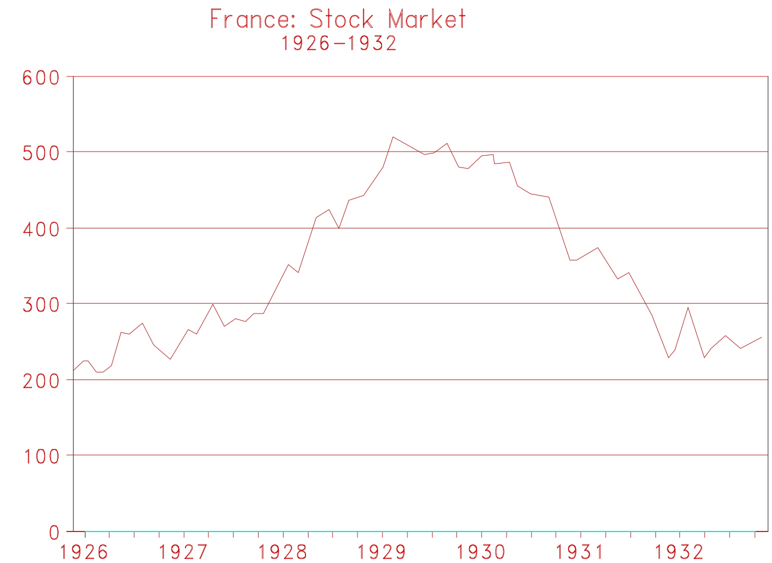
France: Stock Market
1926-1932
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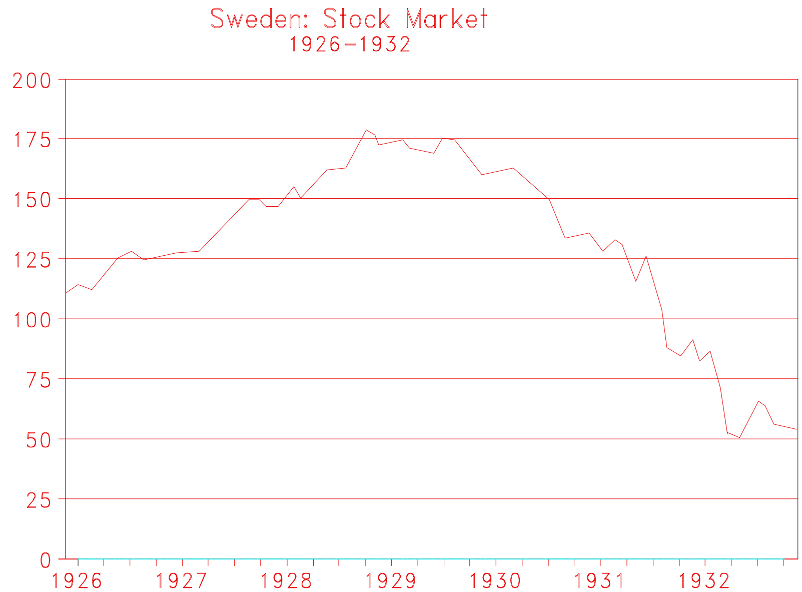
Sweden: Stock Market
1926-1932
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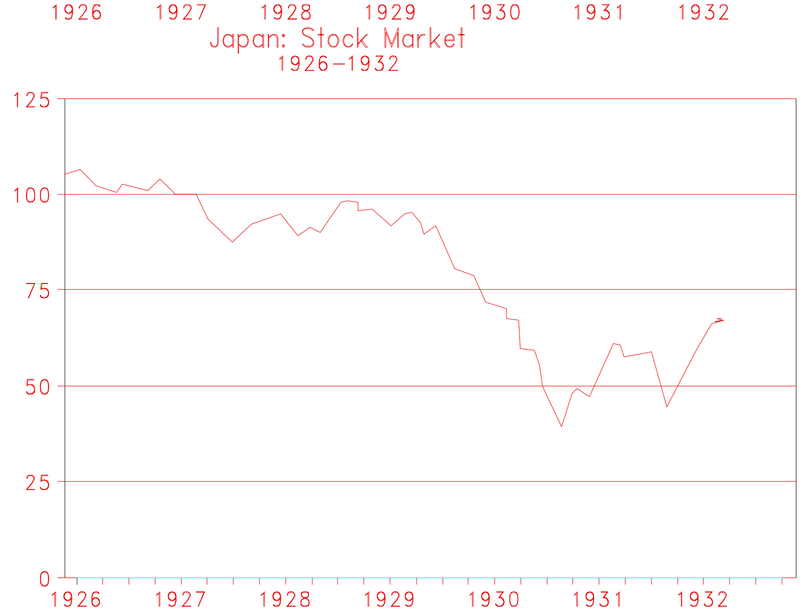
Japan: Stock Market
1926-1932
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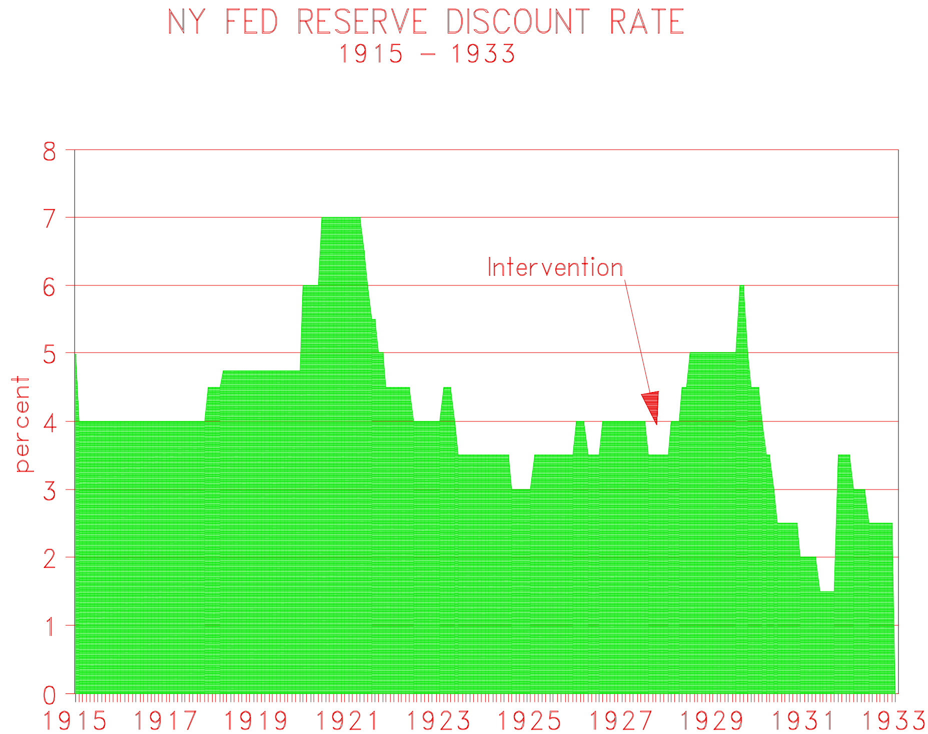
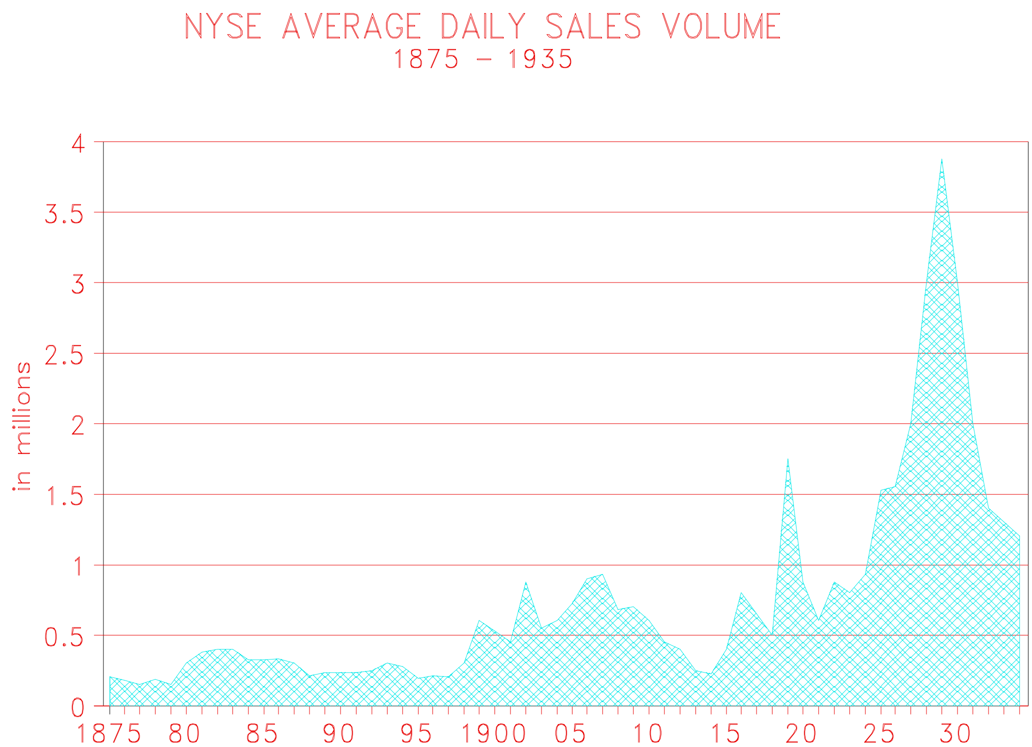


The foreign stock markets had actually peaked shortly after the central bank intervention. In France, the stock market peaked near 550 on the index during February, 1929. By late 1929, this market fell to 475. The Swiss market peaked during September of 1929 at 250 and fell to 215 by November of 1929. In Britain, the stock market peaked during April, 1928 at 165 and by November, 1929, the market had fallen to 120. The Belgian stock market peaked during May of 1929 at 130 and by November of 1929 it had fallen to 75. Most markets had peaked within six to fifteen months of the central bank intervention. In some strange way, the foreign markets seemed to sense that their currencies were artificially overvalued.

The first quarter rally of 1930 in the U.S. was noticeably accompanied by sharply lower volume when compared to 1929. January had registered a total volume of only 62.3 million shares compared to 110.8 million shares for January of 1929. The difference narrowed during both February and March to the point that the volume during March of 1930 reached 227.5 million shares compared to 294.4 million shares during March, 1929. Some of the press during March of 1930 actually referred to the market as a "creeping bull market." As volume reached even 5 million shares on a few days during March of that year, the value of seats on the New York Stock Exchange began to rise. After trading at a low of $350,000 during late 1929, a seat traded at $425,000. Although this was a far cry from the peak of $625,000 in 1929, it illustrated that a reaction was taking place in the brokerage industry as well.

There were many who were trying to come up with ideas to stimulate business during the first quarter of 1930. One such idea became known as the "Bohannon Plan." President James A. Bohannon of Peerless, manufacturer of the Peerless Arrow, suggested that auto manufacturers should try to stimulate auto sales by encouraging those who were directly or indirectly involved in the auto industry to buy a new car. Sales were declining significantly and even the dealers were quick to support the idea.



Nonetheless, the stimulation would not even put a pause in the declining demand for automobiles. By the end of 1930, when all the sales figures were released, the decline was sharp indeed. Ford sales dropped during 1930 by 50% yet Chevrolet posted sales which were off by only 5%.

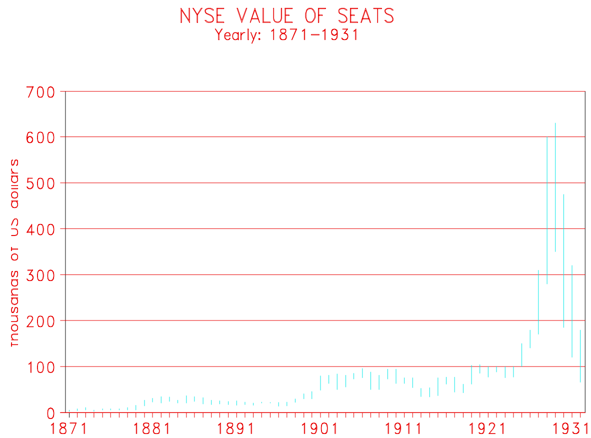
During the first quarter of 1930, earnings of many companies began to show declines. The following is a list comparing the first quarter earnings of 1930 to 1929.

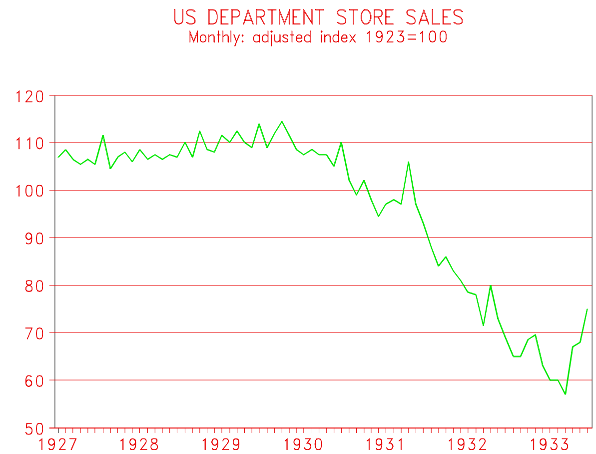
Company	1930*	1929*	%Ch
AT&T	$40,500	$40,439	.1%
Atlantic Refining	1,124	3,892	71.1%
Beech-Nut Packing	614	654	-6.1%
Chicago Yellow Cab.	532	664	-19.8%
Commonwealth Edison	5,120	4,941	3.6%
General Electric	15,042	14,505	3.7%
General Foods	5,900	5,168	14.1%
Hudson Motors	2,316	4,567	-49.2%
E.I. du Pont	15,854	23,847	-33.5%
Intl Cement	841	1,017	-17.3%
Natl Air Transport	127	120	5.8%
Otis Elevator	1,759	1,692	3.9%
S.S. Kresge	2,759	3,177	-13.1%
Western Union	1,486	3,714	-59.9%

*Expressed in thousands.

The above listing provides some perspective of the mixed earnings at this early stage in the developing depression. The industrial producers such as DuPont, the auto industry and the building industry were all hard hit. In addition, retail chain stores and department stores noted sharply lower earnings as well. The utilities and telephone companies seemed to hold their own at this point. Western Union, perhaps more utilized by business than the public, posted a first quarter decline of 59.9% in earnings, which was the most severe of the well-known corporations.

The Dow Jones Index on Department Store Sales curiously enough peaked during September 1929 at 114. By the end of the first quarter in 1930, this index fell to 108. The decline perhaps does not appear to be significant. However, this index eventually





fell to 57 during March of 1933, continuing beyond the 1932 low in the stock market.

As the first quarter of 1930 came to an end, March 31 closed virtually on the high for the month at 286.10. March 31, 1930 had reached 289.13 and the optimism began to build with the fundamentalists focusing upon tax cuts, government economic stimulation through increased spending, and, of course, the drastic decline in the discount rate on the part of the Federal Reserve. On March 31, Congress passed the Public Buildings Act, which provided for $230 million in additional spending in an effort to stimulate the economy. On April 4, an appropriation for state road building projects added another $300 million in spending to help stimulate the economy. The bullishness leading into April seemed to be well founded. By all Keynesian principles, the economy should have supported in the face of declining interest rates and increased government spending. Yet, through it all, there was something still lacking in the formula for renewed or subsidized prosperity.

As the second quarter began, April continued the uptrend as the industrials reached 290.15. Volume continued to increase, reaching a new high for the so-called recovery at 5.3 million shares that day. April 2 was active with 5.3 million shares changing hands once again. Those were the first back-to-back 5 million share days during an uptrend since the devastation of late 1929. But the Dow Jones Industrials merely matched the previous daily high of 290.15 intraday and closed 2 points lower.

On Thursday, April 3, volume declined to 4.6 million shares as did the market. That day's trading range was 288.17 to 282.29 but it at least managed to close higher than the previous day. Then on Friday, April 4, the buying began again. Volume that day reached 5.9 million shares, which would be the highest volume reached during the recovery. The industrials managed to make a new high at 291.44 but closed back under 290.

Excitement began to build. Closing above 290 would surely lead to a breakout, the consensus of opinion surmised. The sentiment seemed to be betting that 300 would be broken with ease at almost any moment and following that, who knew? After all, the Fed had lowered the discount rate back to 3.5%, which was the very place at which it had stood just prior to the breakout in early 1928. Was this not a reason in itself for the market to now blast-off to new record highs? Earnings may have been mixed, but value was certainly there. AT&T was only off .1% in earnings yet the market was still basically 25% lower than the 1929 high.

The following day the market tried to press higher but Saturday sessions were noted for their light volume. That Saturday, however, volume reached 2.5 million shares. This was almost double the volume of previous average Saturday sessions during this new recovery. Nonetheless, that day the market couldn't quite make it. It stopped dead at 291.06 and closed at 289.96.

On Sunday April 6, optimism for the following week remained high. The majority was cautious but certainly it expected the 300 level to be tested if not exceeded. Rumors that the Fed would perhaps cut the discount rate a bit further made some nervous while it assured others. Brokers' loans were certainly far from record levels. That would seem to suggest to some that there was plenty of room for a continued bull market. Still, many failed to see that even though volume was improving, the number of participants was far from overwhelming.

On Monday, April 7, the market opened steady. Buying began to increase at impressive rates. The market pushed ahead again, as most had expected, reaching 293.43. Then on the close, the industrials finished above the 290 mark. Volume registered in at 5.49 million shares for the day. The next day, some nervous profit taking and keen shorts began to hit the market. It slipped at first, but nothing drastic. The industrials fell to 285.96 but closed at 288.36. Volume was down to 4.6 million shares for the day.

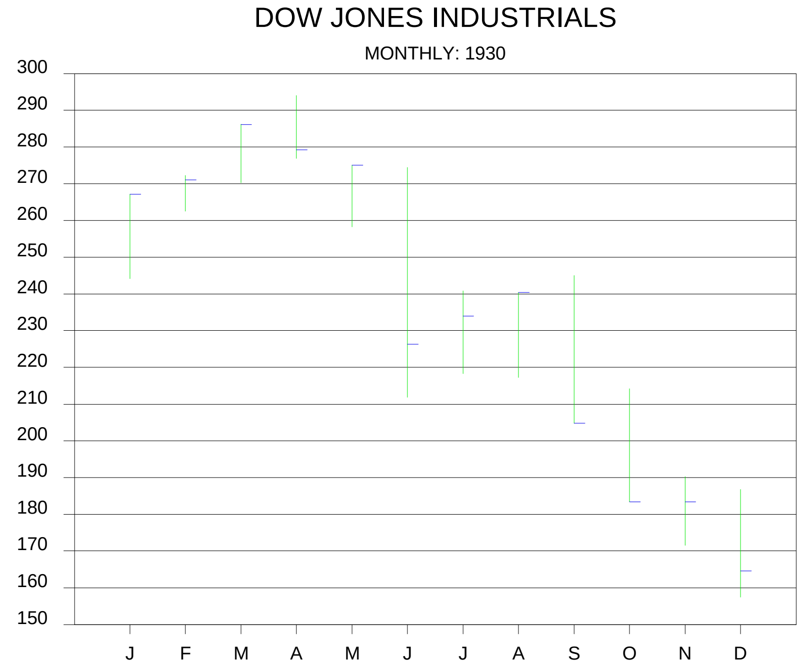
On Wednesday, April 9, the market staged a rally once again. Volume exceeded the 5 million share mark but only by a fraction. The market had charged back up to 293.36, coming close to scoring a new high but no cigar. It did close at 291.15 which was a new high closing for the recovery. This sparked further optimism and the majority was certain that 300 would be the very nearest target for the week.

Thursday brought renewed buying and the low of the day quickly formed at 289.72. The suspense continued to build as trading increased, posting volume at the 5.6 million share mark once again. The day managed to reach 295.98 and closed at 292.19, which was another new high for both an intraday and a closing level.

Friday, April 11 dipped back again as profit taking was seen during the morning session. But the market staged another rally and, sure enough, the industrials struck a new high of 296.35. It was an outside reversal, so to speak. The low of the day was 288.42, which was about a point under the previous day's low. But by the end of the day, the market had also run up and exceeded the previous day's high and closed at 292.65, another new closing high.

On Saturday, trading dropped back to 2.1 million shares, which was still pretty decent for a Saturday session. The day remained within the boundaries of the previous daily range but on the finish it closed at 293.43, another new closing high. Optimism still remained high for the following week as Easter approached. Many suspected that volume might be light due to the short trading week and the many traders who were prone to taking a holiday around this time.

Monday and Tuesday remained steady days with the industrials holding support in the mid-289 level yet failing to punch through the previous week's high. None-

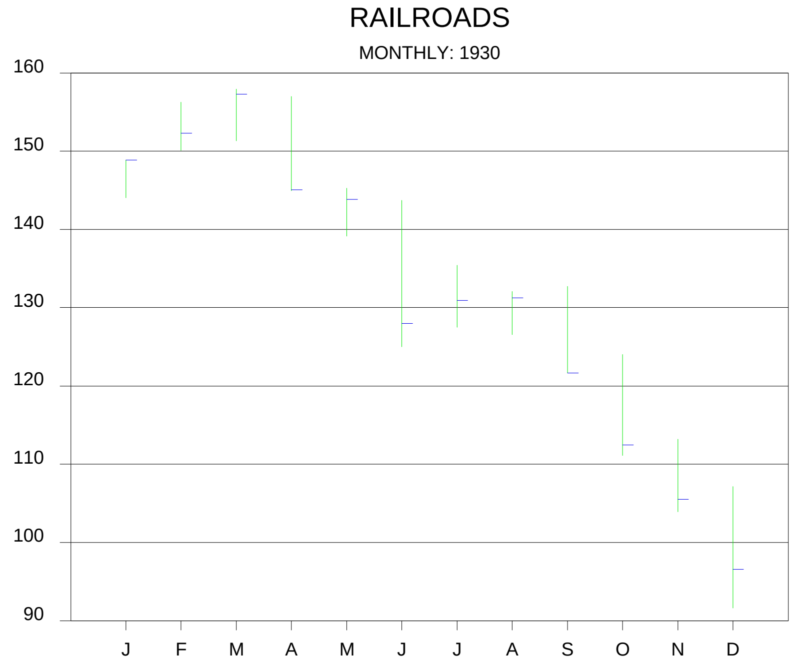


theless, both days continued to hold, closing within the 293 level. Then on Wednesday, April 16, the market staged a rally to new highs after holding the 290 level intraday. This time the industrials managed to reach 297.25 but fell back to close at 292.20. Volume was 4.3 million shares for the day. Thursday tried its best to punch through again after holding 290 intraday. The highest it could reach was 296.05, the highest closing for the year. The entire recovery was accomplished on this day. The industrials closed at 294.07 with volume registering at only 3.9 million shares. The highest volume did not coincide with price.

As the Easter holiday began, much of the news about first quarter earnings began to appear. Around the world, financial pressure continued in Europe and the keen investors began to think twice about this optimistic scenario with the Fed and interest rates. In India, a civil disobedience campaign against the British had begun under the leadership of Mahatma Gandhi. In France, talk of a workmen's insurance law was under way and, in fact, by April 30 it was passed. in the United States, calls for protectionism could be heard in the corridors of the House of Representatives.

In South America, the depression was creating problems as unemployment continued to rise and rumors of political unrest began to build. The financial press in the United States in general was not necessarily bearish. Nonetheless, if one looked closely, the news was certainly not rosy enough to suggest a raging bull market either.

After Easter, the market tried that Monday to stage a rally. However, the best it could muster was a high of 295.88. But in a trading pattern which many have noticed today, markets quite often reverse their trend after a holiday. Well, that same coincidental pattern seems to have existed then too. Easter Monday was met with profit taking and short selling. Volume was 4.4 million shares and by the end of the day the industrials fell to 287.24, closing at 288.23.



The next day, the industrials paused but only after falling in the morning to 284.28. The afternoon session saw a quick rally which was mostly short covering and little fresh buying. The industrials jumped back to 291.39, closing at 290.01. Volume was 4.5 million shares and many believed that the sell off was over and that the market would try the upside once again.

On Wednesday, April 23, the shorts became nervous. The industrials traded back up to 293.27 stopping many out. But then when all the buying was done, the profit taking seemed to come into the market with numerous odd lots. The industrials turned south and fell right back down, testing 286.25 and closing at 288.78 with volume registering 5.5 million shares. Volume began to increase on the downside at this time, a distinct shift from the pre-Easter pattern which had displayed higher volume on up days. Rumors began to circulate from booth to booth of large bear raiders.

On Thursday, April 24, the market rallied in the morning reaching 290.58. But once again the industrials just could not hold that level. By midday the market began to fall sharply as selling increased. Suddenly out of nowhere, the industrials simply fell, entering areas where no bids had shown. They managed to gain some support at 283.74 and closed at 286.18.

Both Friday and Saturday failed to reach 290 on the rally side but each managed to penetrate the previous daily low. By the end of the week, that Saturday session posted volume of 2.3 million shares, showing a decisive increase for the downside as that day closed at 285.46, the lowest for the entire week.

By now confusion began to increase. Talk of rising unemployment and demands from many sectors to raise tariffs began to reach the ears of Wall Street. Optimism soon gave way to pessimism and no one looked toward the next week with expectations of 300 over again.

The final week in April opened about unchanged and tested 286.12 that Monday.

Volume was brisk at 4.8 million shares but it was still increasing on the downside rather than on rallies which perhaps illustrated the fears which resided in the bull camp. The selling continued that day, and this time even 280 didn't prove to be support as the low of the day formed at 275.71 and the market closed near the low at 276.94. The industrials had now fallen 22 points from the high of April 16, which was a decline of nearly 7.5%. Tuesday, April 29 brought more of the same but the market held at 272.24, closing at 278.43, up only marginally from the previous daily close. But volume increased to 5.4 million shares.

As the calendar turned the pages of April into May, the selling persisted. By Friday, May 2, the market fell to 264.93, closing at 266.56. Friday's volume had now posted a new high at 5.9 million shares to exceed the highest volume record during the pre-Easter rally. That Saturday was not a day that people were prepared to take off. The selling continued again and this time the market broke severely with the industrials dropping to 256.99 and closing the week at 258.31. But that Saturday in early May posted volume at 4.8 million shares with liquidation far outnumbering the bargain hunters. Commentary at the time suggested that most of the buying came from profit taking on the part of short players.

Poor earnings reports continued and unemployment news still looked gloomy. Talk of a depression seemed to be on the tip of everyone's tongue and the cries for protectionism began to rise in pitch and tone. As the week of May 5 began, sellers continued to outnumber buyers. Now, even shorts were not anxious to cover so quickly. Monday, May 5 saw the industrials fall to 249.82. But then the market started to stage a rally and some shorts suddenly changed their mind once again. The short-cover rally brought the market back to 262.84 intraday but it closed at 259.68. The balance of the week was spent moving back up against the short positions along with some bargain hunting, and by Saturday the week's high stood at 272.20 with the week closing at 272.01.

Nevertheless, news continued to be bearish. But despite the fact that shorting the market seemed the logical thing to do, the market adopted a stubborn bullish attitude and simply refused to go down. The industrials continued to churn back and forth throughout May and actually reached their highest point intraday on May 29 at 276.66, closing the month at 275.07. Debate continued as some called to new lows under that of the panic of 1929 while the majority insisted that it would remain as the major low.

June opened at 278.86 after the three-day holiday, which fell between May 30 and June 1 that year. However, 276.86 quickly formed the high for not merely the day, but the entire month! The industrials closed that day at 274.45. That first week in June saw the market pause from its rally and drop back to 263.29 by Friday. Volume had been reduced to daily levels which averaged under 2 million shares as confusion mounted. Dull was one word which floated among the vocabulary of the traders on the floor.

Then on Saturday came news that a bill in Congress to dramatically raise tariffs would perhaps pass, and a few traders became interested enough to post volume that day at 2.2 millions shares. The market fell back, slipping below 260, testing 256.87 and closing at 257.82. Some argued that U.S. industries would rebound as long as Europe was forced to stop its dumping policies while others warned of a growing trade war in the wind. The instability within the market and the crack within the foundation of confidence proved to be the winning hand.

That Sunday there were a lot of really nervous guys in the market. When trading began on Monday, June 9, it was certainly not dull. Volume jumped back up to 4.6 million shares as the market opened at 259 and fell 10 points to 249.51, closing this time at 250.78. This was a 3.8% move in the course of one day. The next day, the Dow Jones Industrials fell to 247.62 with volume registering at 4.7 million shares. But then at the end of the day, profit taking from the outstanding short positions drove the market up 10 points to close at 257.29. But that was all she was worth. The next day the industrials tested 257.24 and said good-bye to the 260 level for what would eventually seem like years. The market fell straight down, punching through to new lows at 243.90. The balance of the week continued

"Sound Sleep is more necessary than exercise or food"—

says

GENE TUNNEY

"I envy Gene Tunney his nerve control more than his strength or agility. On the day before his contests, and on the morning thereof, he was as calm as if nothing unusual were going on," wrote William Lyon Phelps in Delineator last July. And in maintaining this nerve control Gene Tunney considers sleep an important factor.*

The retired world's champion comments on sleep

"WHEN preparing for a competition in which physical endurance and mental alertness are required, sound, undisturbed sleep is more necessary than exercise or food.

"Exercise and digestion consume nerve-energy which is the motive power of the living machine—Man. Sleep and rest are the mediums through which this destroyed nerve-energy is restored.

"A wise athlete when preparing for athletic competition makes it a rule to get ten hours of sleep and rest a night. This long rest after the hard daily grind will completely refresh his nerves and fit him for the next day's grind, gradually conditioning him for the great event—the contest."

**The Simmons Company, 666 Lakeshore Drive, Chicago, Ill., will send on request a reprint of this article, "Gene Tunney Shows The Way."*

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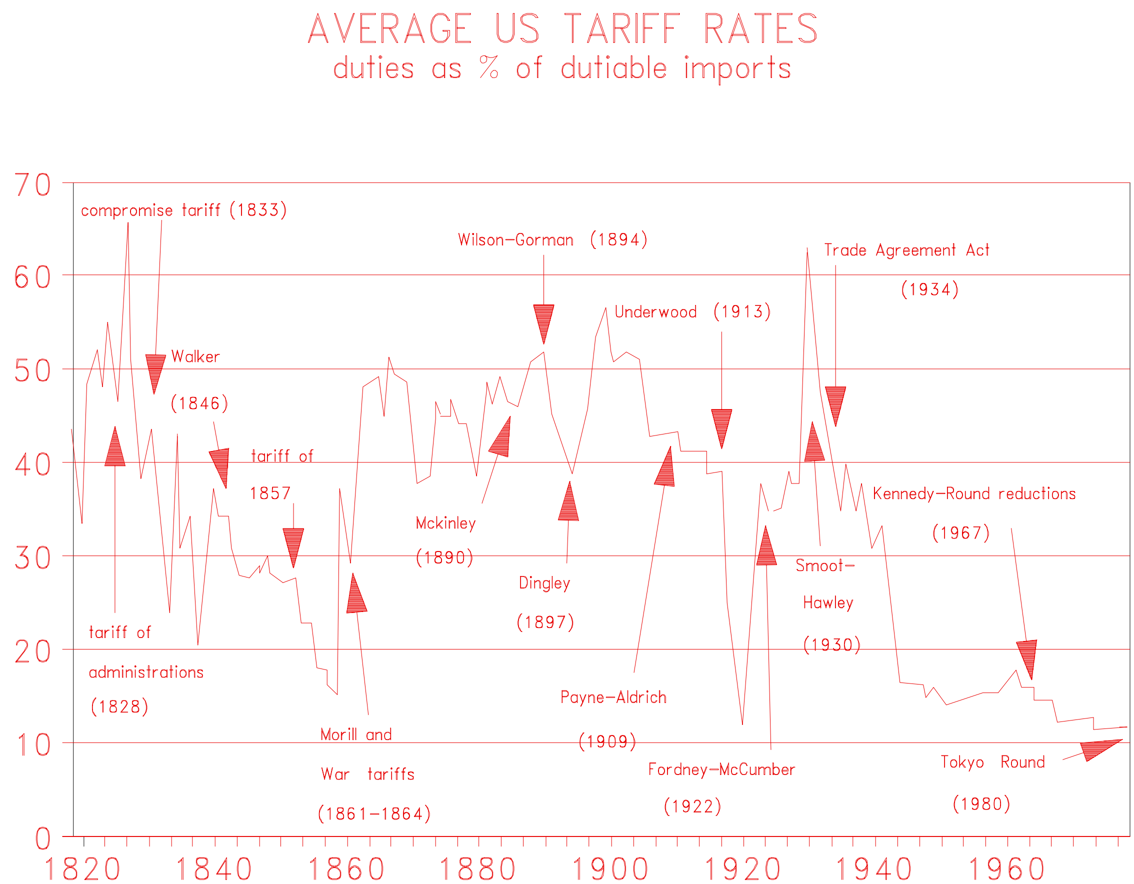


to see selling outpace the buying and the week closed at 244.25.

As the week of June 16 began, the news of what would become known as the Smoot-Hawley Tariff Act loomed over the market like a black cloud. Monday the 16th gapped down and the high of the day formed at 242.18 while the low of the day was 228.94. The selling continued as news reports indicated that the President was going to sign the bill on Tuesday. Hoover as besieged by petitions from 1,028 economists pleading with him not to sign the bill. But history was made that week when he signed his name to that piece of paper. The Dow Jones Industrials plummeted to 212.27, closing the week at 215.30. The selling pressure continued the following week as the industrials fell to 207.74, off 14.9% from the close of June 14.

The Smoot-Hawley Tariff Act was signed on June 17, 1930. This act raised tariffs to their highest levels during the 1900s, exceeding the Payne-Aldrich Act of 1909. It also embraced a most favored nations policy, which was first introduced back in 1923. Under this provision, certain nations were granted large tariff concessions under an arrangement that continued for more than 45 years.

Other nations began to raise their tariffs in response to the Smoot-Hawley Tariff Act of 1930. A general world economic depression began to set in during this second quarter in 1930 as world trade and production declined and unemployment increased. Even all the public spending programs, which had brought the market to its high in April, were now old news. With nearly $1 billion being pumped into the economy, nothing seemed to matter!

History has chosen to remember the Smoot-Hawley Tariff Act as one of the primary causes of the Great Depression. However, the United States was traditionally a high-tariff nation and contrary to general belief, the Smoot-Hawley Tariff Act did not create the highest level of tariffs in history. That distinction belongs to what was known as the "Tariff of Abominations" in 1828. At that point, tariffs rose to about 64% as a percentage of dutiable imports. (Source: U.S. Department of Commerce)

The chart on the average of collected tariffs on U.S. imports illustrates that the percent of duties indeed rose to nearly 60% as a result of the Smoot-Hawley Tariff Act. However, an economic decline had clearly begun some time before this measure was signed into law. We can see that the chart above illustrates that tariffs were also at

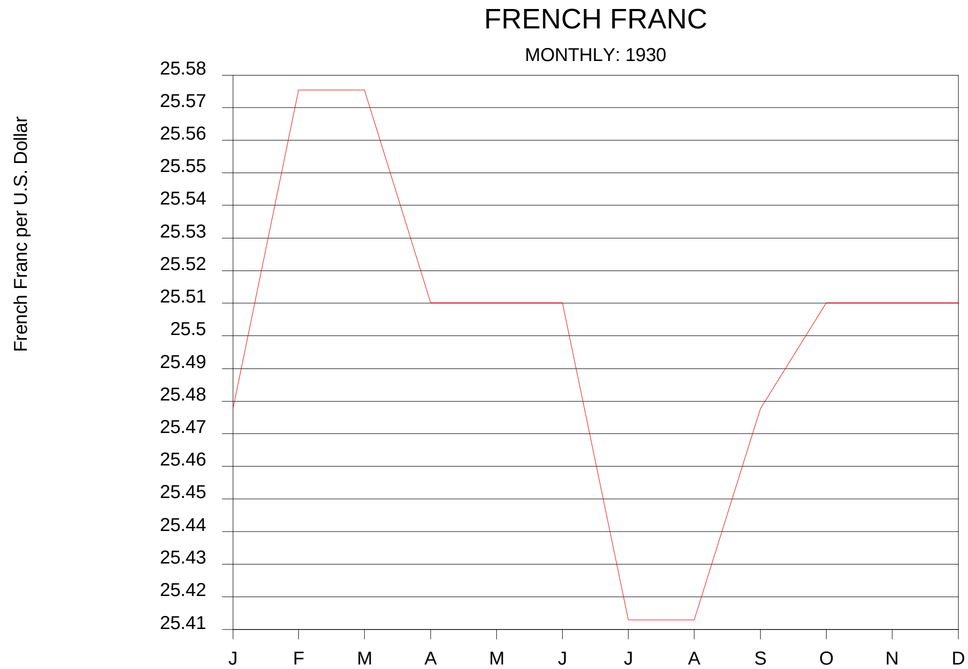
their lowest point at the end of World War I. The following table gives us a look at the import/export picture between 1919 and 1940 between the U.S. and Europe, its major trading partner at the time.

US/EUROPE TRADE BY VALUE
1919-1940 in $millions
Economic Statistics

EUROPE

Year	Exports to	Imports from	US/Surplus
1919	5,188	751	4,437
1920	4,466	1,228	3,238
1921	2,364	765	1,599
1922	2,083	991	1,092
1923	2,093	1,157	936
1924	2,445	1,096	1,349
1925	2,604	1,239	1,365
1926	2,310	1,278	1,032
1927	2,314	1,265	1,049
1928	2,375	1,249	1,126
1929	2,341	1,334	1,007
1930	1,838	911	927
1931	1,187	641	546
1932	784	390	394
1933	850	463	387
1934	950	490	460
1935	1,029	599	430
1936	1,043	718	325
1937	1,360	843	517
1938	1,326	567	759
1939	1,290	617	673
1940	1,645	390	1,255

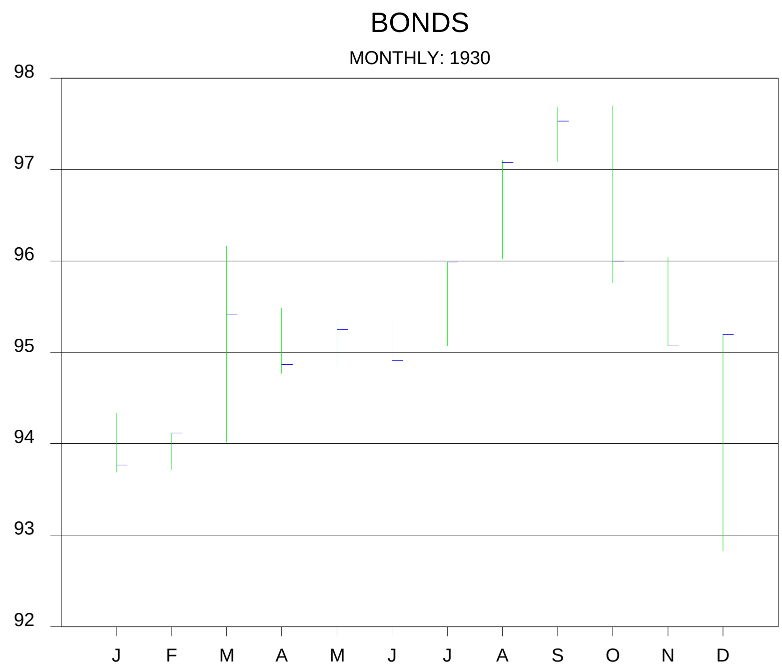
We can see clearly how World War I benefited the United States by increasing its trade surplus with Europe. When we review the period for World War II, we will see how the U.S. trade surplus expanded greatly at the expense of Europe, once again bringing U.S. official gold reserves to 76% of total official world holdings by 1950. But it would be misleading to blame the Smoot-Hawley Tariff Act for the Great Depression. U.S. exports to Europe had de-



clined to their lowest point in 1922 as did imports for the 1920s. But the peak in exports actually took place in 1925 while imports continued to rise into 1929. The trade surplus with Europe also peaked during 1925 and was declining steadily with the exception of a rise during 1928.

The Smoot-Hawley Tariff Act of 1930 was enacted during a period when the trend was already in a declining mode. Granted, the decline from the 1928 rally in the trade surplus was aided more significantly by the new tariffs and continued to decline sharply until 1933. But the decline was equally as sharp for goods produced and marketed within the domestic economy. If we look at the chart on the average U.S. tariffs collected on imports, there is no direct correlation between this and other major depressions which preceded that of the 1930s. Yet most politicians prefer to point to protectionism as the only lesson we should have drawn from our experience of the 1930s. They fail to attach any significance to exorbitant tax rates, manipulation and intervention in foreign exchange rates. Perhaps if Europe had not over valued its currencies following World War I and had accepted the free market's evaluation, then the intervention of 1927 would not have been necessary and a trade war would have been prevented. But the insistence of Montagu Norman, Governor of the Bank of England, upon returning the pound to its former par value, kept British exports high both in terms of dollars and in French francs. It was France who still festered its traditional dislike of Britain and, as such, the French purposely kept the franc undervalued in terms of gold to promote exports. As a result, France accumulated a hoard of gold which surpassed that of Britain while simultaneously imposing high restrictions on importation of foreign goods. France was by far the most aggressive in leading the protectionism trend within Europe itself.

The cries for protection from imports have always been made by various sectors of industry in every nation around the world. Whether those measures take the

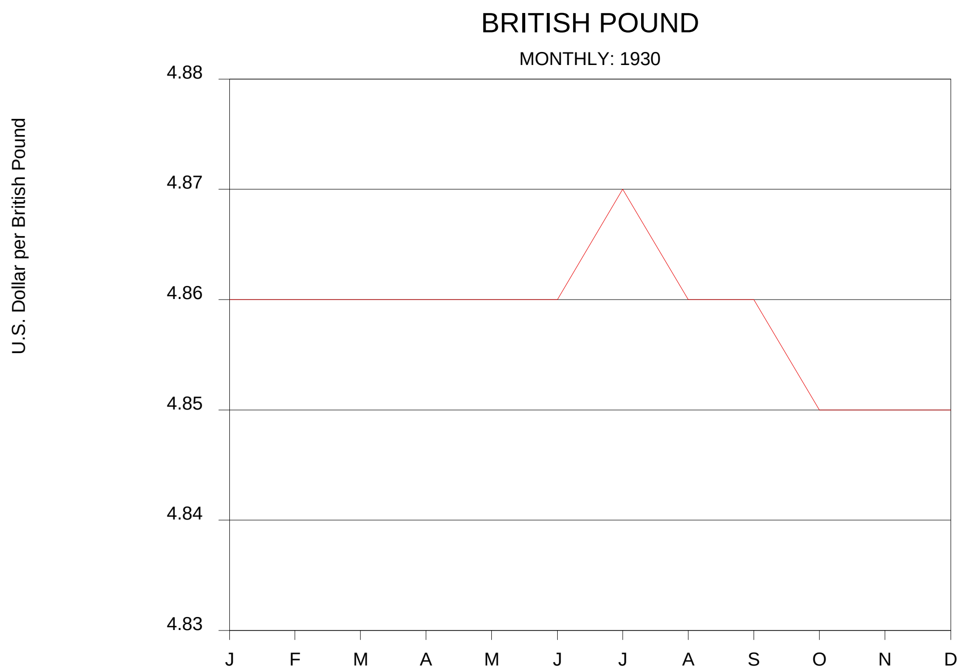


form of quotas or tariffs, the same effect upon trade will result. To think that only tariffs were the cause of the Great Depression is grossly incorrect. This economic contraction which took place worldwide was primarily created by the destruction of public confidence within the economy in addition to a debt crisis that was hidden behind all the press reports and economic statistics. But the central banks viewed the problem of a U.S. trade surplus and the U.S. creditor status as a deterrent to the reconstruction of Europe. Non-U.S. bankers argued that unless U.S. interest rates were lowered and trade was shifted back in their favor, then repayment of war loans to the U.S. would become impossible.

The true problem was that the U.S. economy had expanded through innovation and through the devastation suffered by Europe at the hands of war. But exports clearly peaked in 1925, NOT during 1929 or 1930. Europe's capacity to buy was severely hampered by its enormous debt service resulting from the war and its quest for rearmament once again. Furthermore, the steps to intervene by reducing U.S. interest rates in hopes of attracting more money to Europe should not have been taken. What should have been done was a currency devaluation in light of the reduced capability for economic growth in Europe.

Instead, Britain chose to try to return the pound to the same level at which it had once stood prior to the war. This resulted in a serious overvaluation for the pound. This kept British imports relatively high when a devaluation would have done far more to stimulate British exports by reducing their costs to the United States. Britain's depression was further widened as taxes were raised in an attempt to hold on to the gold standard. Once the pressures from this serious, major blunder became so great and the gold standard was abandoned in 1931, the pound collapsed to levels under those seen during 1920 following the war.

The U.S.-Europe trade balance expressed on an annual percentage change basis has been provided in the chart above. Here we can see that the year over year change in the

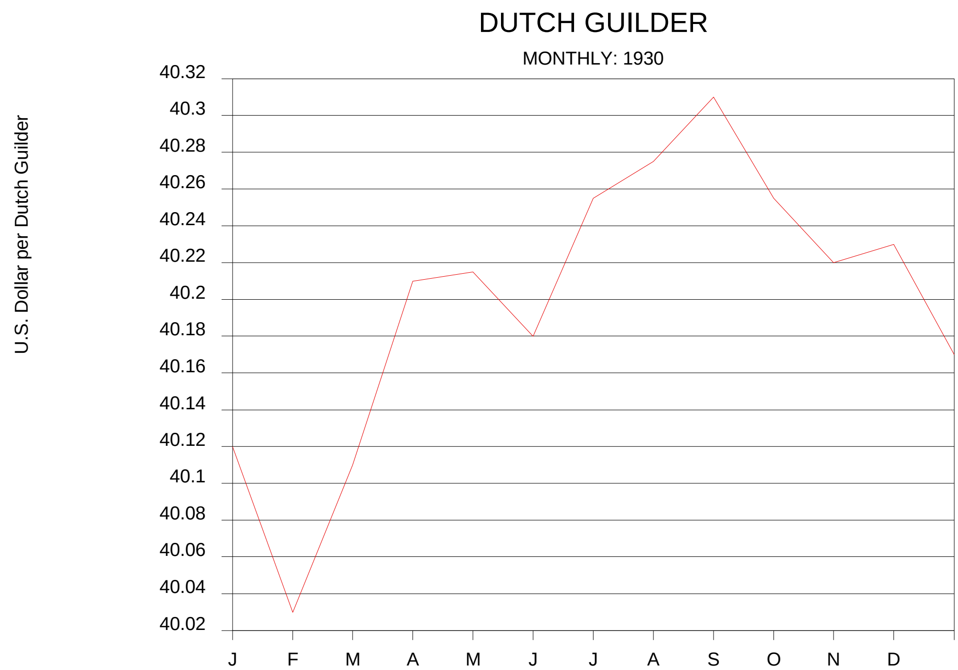


U.S. trade surplus was on a steady decline since its peak in 1920. The decline in imports from $1.3 billion to $911 million between 1929 and 1930 was not entirely caused by the Smoot-Hawley Tariff Act of 1930. By the time this Act went into force, half of the year had already expired. As a result, in comparing the exports between 1929 and 1930, a decline of 21.4% occurred. Imports declined by 31.7%. However, the decline in imports during the first half of 1930 was 26%. Obviously, the downtrend was already in motion and the second half of 1930 was not such a drastic decline in comparison to the previous year.

When viewed objectively, all the economic data point to the fact that a general decline in world trade was already in motion as of the fourth quarter of 1929. The protectionism was enacted as a response to that decline and to the European monopolies which were cutting deeply into many U.S. industries. Had a decline not been in motion, there would not have been as much support for higher tariffs as there was at the time. With this in mind, we cannot blame the depression upon the Smoot-Hawley Tariff Act entirely although the 1920-1930s was a period of unspoken war for international trade.

We still come back to the fact that diamonds were off 50% by January 1930; furs and most other raw commodities had declined from 15% to 30% by the first of the year. The decline in the European stock markets, which preceded the peak in the U.S. market, illustrated an overvaluation of foreign currencies themselves. The intervention implemented in 1927 merely attempted to artificially hold those currencies excessively high while simultaneously holding the dollar low.

Although many nations sought to return to the gold standard and set their goal at the pre-World War I levels of par (for example, $4.86 on the pound), this was far too ambitious given the actual shift in industrial capability from Europe to the U.S. This is what was obvious to Oswald T. Falk. Again, if we refer to the table of imports and exports from the U.S. perspective, we can see



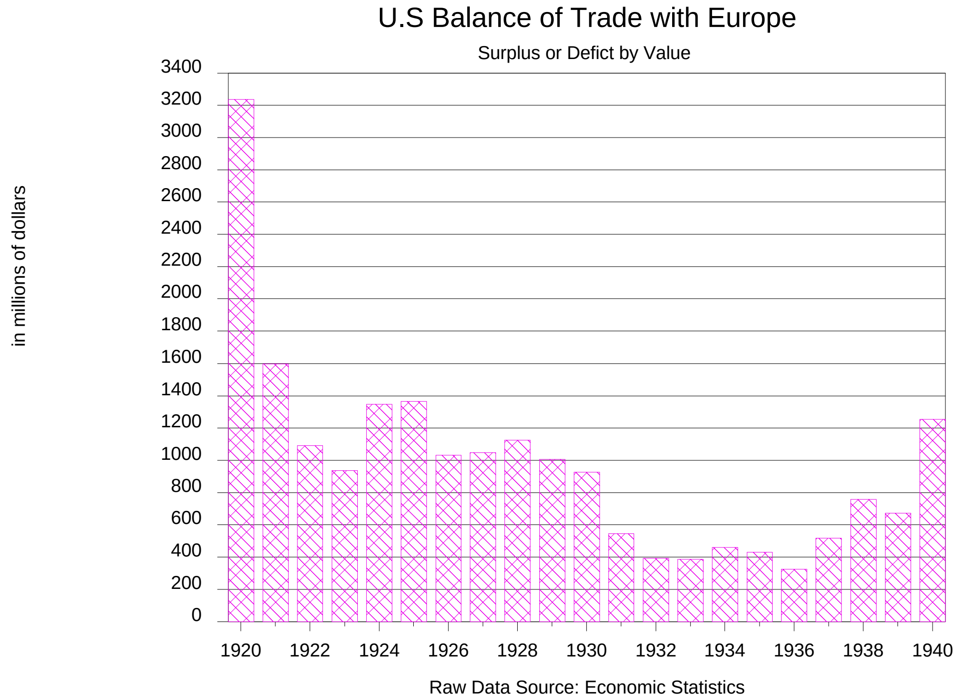
clearly that exports peaked in 1925 while imports from Europe peaked during 1929.

Europe could not afford to purchase all the production of the U.S. and, therefore, once both the European and the domestic U.S. consumers reached their capacity for purchasing goods and services, a contraction was logical. Much of the blame truly lies on the central banks and their political attempt to strengthen the European currencies at levels which were far too high in respect to the ability to participate within the world economy. The war had devastated their economic position, which was not reflected in a lower currency valuation upon the foreign exchange markets.

On the surface, one might tend to believe that if the dollar were being held down artificially between 1925 and 1931, U.S. exports should have increased as the overvalued pound would have purchased more U.S. goods. That might be the classical relationship but the policies in Britain had forced upon its own people a deflationary depression, which came to its bottom in 1922-1923 and suppressed rapid economic expansion during the period. If the people themselves were suffering from tight money policies, no matter how low the dollar goods might be priced, demand was not present. Thus, this currency valuation theory in relationship to trade is not always one of direct immediate influence.

Hence, the lower dollar did not encourage an increase in U.S. exports, which is again the case that is emerging in the aftermath of the September 1985 central bank manipulation. Indeed, this entire period offered many lessons that the fundamentalists seem to have ignored. The increase in government spending which was implemented by Hoover led eventually to actual fiscal deficits, stands in direct contrast to those claims that government has the power to prevent recession by printing more money.

To prove this point, again take note that U.S. exports to Europe peaked precisely during the same period when most nations



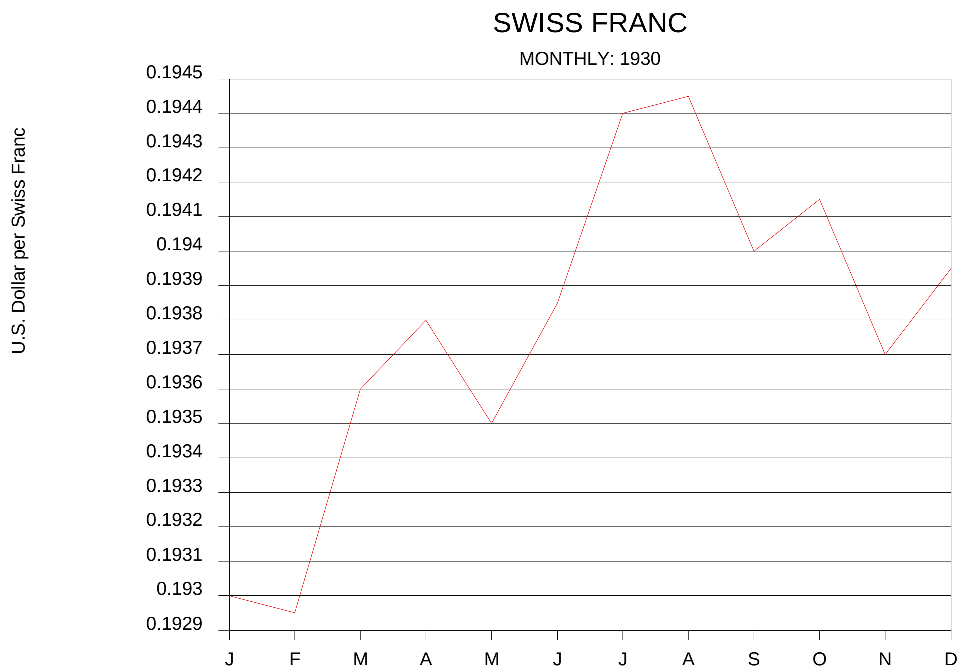
returned to the gold standard at what was then called "par" or pre-World War I levels. Thus, the U.S. trade surplus peaked near the dollar's low initially, but failed to improve thereafter. And as far as the thinking behind the fiscal deficits, we will soon see how these bullish attitudes for increased government spending later turned into ammunition for bears.

The intervention of the central banks in 1927 was needed to divert capital toward Europe in order to maintain those artificially high levels. That was one of the primary causes of the depression. That intervention resulted in the direct and immediate effect of a flight in capital from bonds into stocks. As prices were driven higher, speculators and novice investors were drawn into the market for reason of quick profit. That would not have taken place had the European currencies not been overvalued. The European stock markets peaked shortly thereafter as well, and capital from those markets also flowed into the U.S. stock market. Many smart Europeans had come to the same conclusions as Falk. Dollar investments were seriously undervalued.

The observations of Oswald T. Falk, which were discussed earlier, were correct. His reasons for advising all his clients to sell British stocks and buy U.S. stocks were based on his perception that a true economic expansion had not taken place in Europe and that the dollar was truly the strongest currency, although that could not be seen at the time due to the artificially fixed foreign exchange markets.

The stock market crash of 1929 was therefore not purely a domestic invention but an international reaction to intervention which had sought to re-establish the former glory of a world which once existed and had now changed. Falk's forecast that the U.S. economy would grow in the future at the expense of an older, decaying European economy was completely correct and obvious at that point in time.

If we look at May 1930 and compare it to May of 1929, auto production was down



31%, pig iron down 13% and railroad car loadings had declined by 9%. The only thing that had increased was business failures which were up by 9%. This clearly establishes that the decline was obviously in place prior to the Smoot-Hawley Tariff Act and that the Act merely helped to perpetuate a trend which had begun prior to Hoover's signing of the bill on June 17. If we look at U.S. exports as a percentage of G.D.P. (Gross Domestic Product) in terms of constant 1972 dollars, we find that exports made up only 5.28% whereas the British exports in 1929 were 22.9% of their G.D.P. By 1931, these percentages declined to 4.44% in the U.S. and 16.71% in Britain. If the U.S. depression was caused by a loss of U.S. exports, then the loss of only 4% to 5% of G.D.P. should not have created an 88% decline in the stock market. Obviously, other factors were involved.

In the chapter for 1927, you will recall a speech by Dr. Herty. He pleaded with Congress to either put up tariffs, to which they replied no, or repeal the Sherman Anti-Trust Laws to allow U.S. industry to band together to fight the cartels which were being organized in Europe. We have already shown how U.S. exports peaked in 1925, yet U.S. imports from Europe peaked in 1929. Had the free market system been so holy, then the U.S. administration should have at least allowed U.S. industry to compete on the same level by permitting those mergers. But the government's view of a monopoly under the Sherman Anti-Trust Act was far too narrow minded. It only considered U.S. domestic monopolies and did not take into consideration foreign monopolies. Again, had government listened to Dr. Herty in 1927, the protectionism of the Smoot-Hawley Tariff Act of 1930 may have been avoided. It appears that at the very least, much of the blame for the depression lies upon the mismanagement of government and its blunders in legislation and intervention. It was clearly not the shoe shine boy who was buying on margin as many politicians have tried to make us believe.

Many economists and politicians, particularly Franklin D. Roosevelt, placed a lot of the blame for the Great Depression upon the Smoot-Hawley Tariff Act. Posterity has chosen to distort much of this issue and in effect seek an easy mark on which to blame the depression. Others sought to blame the speculation in the stock market to further political power to control the free markets, which to this very day still plague Wall Street. But, if we are to be honest in our approach in trying to understand the events of this unfortunate era, we must also consider all the facts.

The Republican platform of 1928 had structured within it a call to reform and raise tariffs, particularly in the hard hit agricultural sector. Those who talk of trade wars and the like should also review the actions of Europe and its tendency to grant monopolies, such as those to the Swedish Match Co. on the part of France and Germany, in addition to the distinct encouragement of cartels and price fixing. These steps were all taken well in advance of the Smoot-Hawley Tariff Act and were unquestionably measures directed toward an easy road for the reconstruction of the European economy.

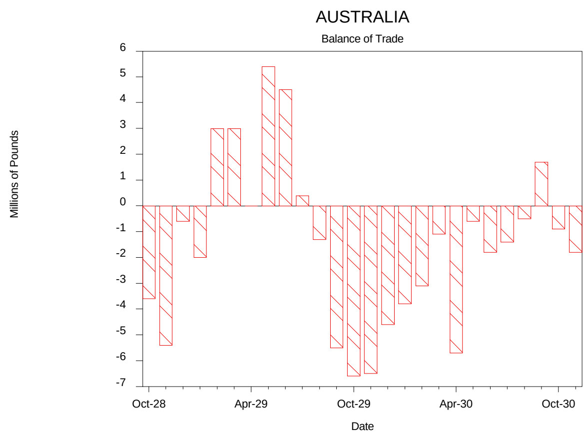
The truth of the matter is that the United States' efforts to increase tariff levels came after similar measures which had already been underway in 30 various nations. Some nations were striving to rebuild their economies while others were seeking to achieve a higher level of self-sufficiency and rearmament. The postwar era had indeed imposed upon Europe a varied effect prompted by a still more diverse political approach. In Britain, the full brunt of the depression had been suffered back in 1922 and the balance of the roaring' 20s had been largely a period of stagnation during which pride had ruled more than reason. Instead of trying to stimulate economic growth, the Bank and the Treasury had sought to grasp the opportunity to force the bitter doctrine of the Cunlife Committee and the lofty aspirations of Montagu Norman by returning the British nation to the gold standard, which seriously overvalued the pound at the expense of its own economic reality. France perhaps suffered least among European nations essentially because it had undertaken the opposite direction, which seriously undervalued the franc in terms of gold. This helped France establish a massive gold hoard which even exceeded that of Britain. But France was particularly adamant about protecting itself from imports. particularly those in the food sector.

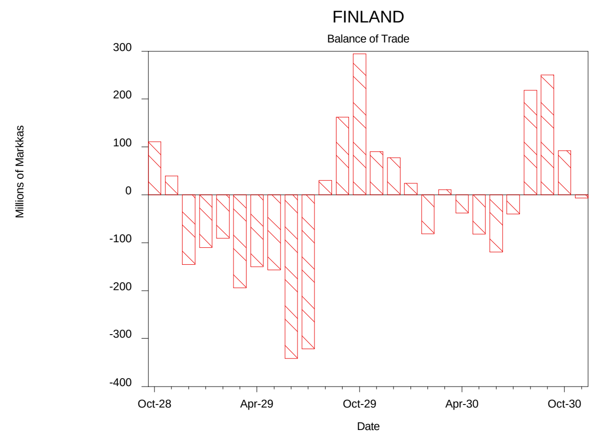
President Hoover's idea was one which he termed the "flexible tariff." This concept sought to remove from Congress the usual haggling over what products would and would not be subject to tariffs. The concept was actually quite sound given the trade war at the time. A Tariff Commission would adjust the measures on a basis whereas the cost of production of a particular product from an overseas supplier would be compared to that of the domestic producer. If there was an unfair advantage, the Tariff Commission would have the authority to raise the tariff of that particular product in an effort to equalize the competitiveness between the domestic and the overseas producer. The actions of the Commission were subject to the approval of the President.

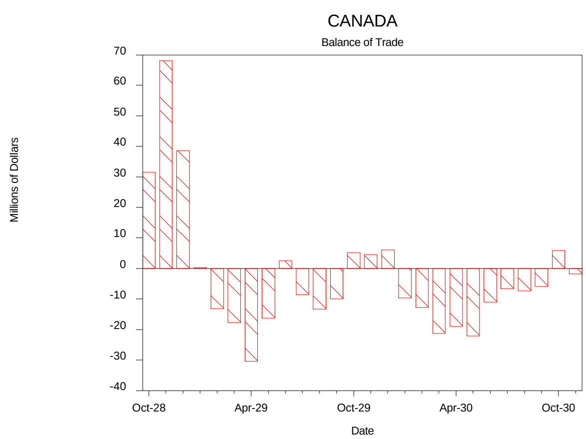
Senator Borah was originally very supportive of the "flexible tariff" concept to let a bipartisan Tariff Commission handle the affair rather than have Congress argue over every nut and bolt or green apple which was on the import list. The House actually passed its version of the Tariff Act on May 28, 1929 but in the words of Herbert Hoover, it was "not satisfactory." Senator Borah then sprung into action and turned against the bill in his traditional manner of opposing whatever administration was in power at the time. Senator Borah suddenly proclaimed that the "flexible tariff" robbed the Congress of its authority to preside over

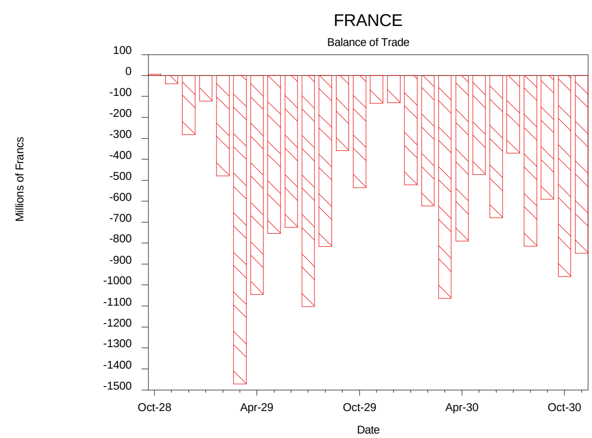
such issues and claimed that it was unconstitutional, but the Supreme Court later ruled that it was not.

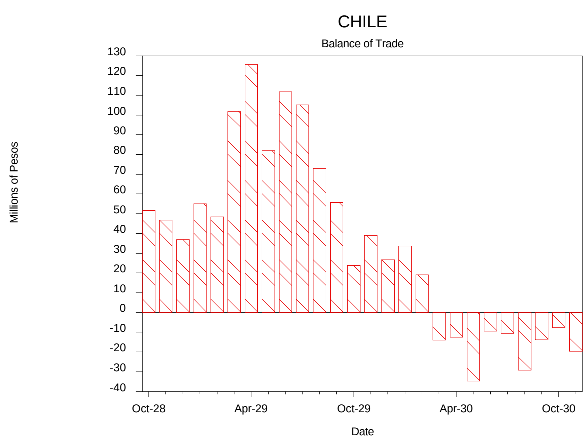
The President felt that the House bill had gone too far in raising industrial tariffs by about 8%; in his mind, the tariffs were more greatly needed in the agricultural field. On August 20, 1929, the Senate committee had reduced the industrial levy imposed by the

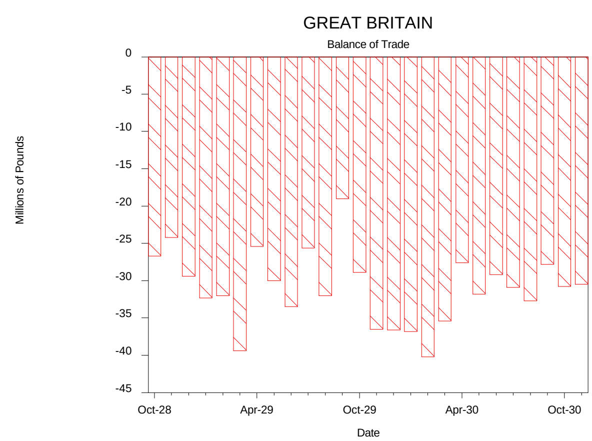

AUSTRALIA
Balance of Trade
Millions of Pounds
6 5 4 3 2 1 0 -1 -2 -3 -4 -5 -6 -7
Oct-28 Apr-29 Oct-29 Apr-30 Oct-30
Date

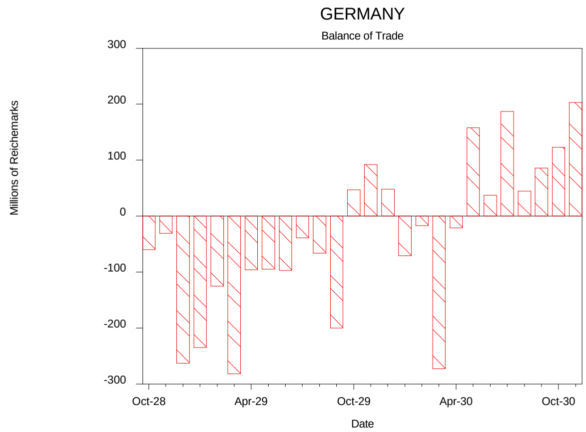

FINLAND
Balance of Trade
Millions of Markkas
300 200 100 0 -100 -200 -300 -400
Oct-28 Apr-29 Oct-29 Apr-30 Oct-30
Date


CANADA
Balance of Trade
Millions of Dollars
70 60 50 40 30 20 10 0 -10 -20 -30 -40
Oct-28 Apr-29 Oct-29 Apr-30 Oct-30
Date


FRANCE
Balance of Trade
Millions of Francs
100 0 -100 -200 -300 -400 -500 -600 -700 -800 -900 -1000 -1100 -1200 -1300 -1400 -1500
Oct-28 Apr-29 Oct-29 Apr-30 Oct-30
Date


CHILE
Balance of Trade
Millions of Pesos
130 120 110 100 90 80 70 60 50 40 30 20 10 0 -10 -20 -30 -40
Oct-28 Apr-29 Oct-29 Apr-30 Oct-30
Date


GREAT BRITAIN
Balance of Trade
Millions of Pounds
0 -5 -10 -15 -20 -25 -30 -35 -40 -45
Oct-28 Apr-29 Oct-29 Apr-30 Oct-30
Date


GERMANY
Balance of Trade
Millions of Reichemarks
300
200
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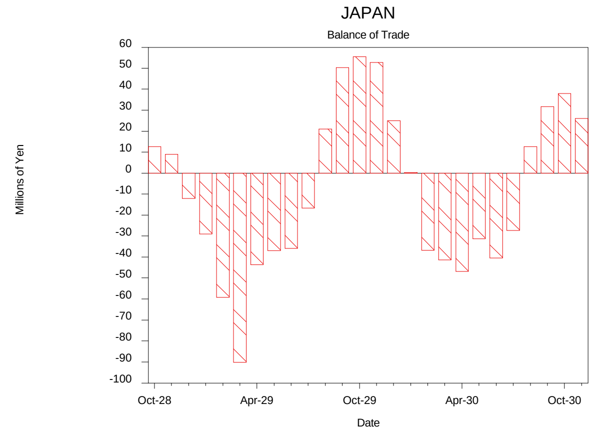
JAPAN
Balance of Trade
Millions of Yen
60
50
40
30
20
10
0
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-20
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-70
-80
-90
-100
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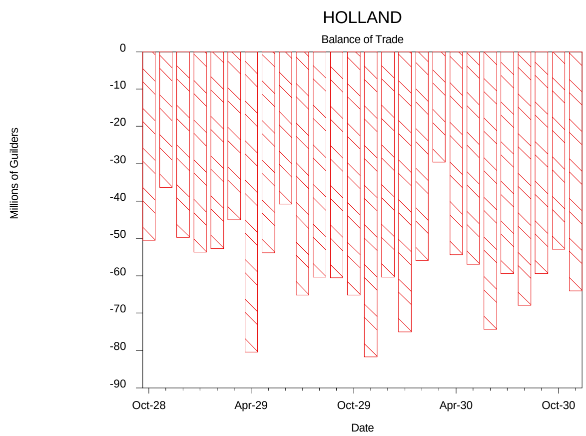
HOLLAND
Balance of Trade
Millions of Guilders
0
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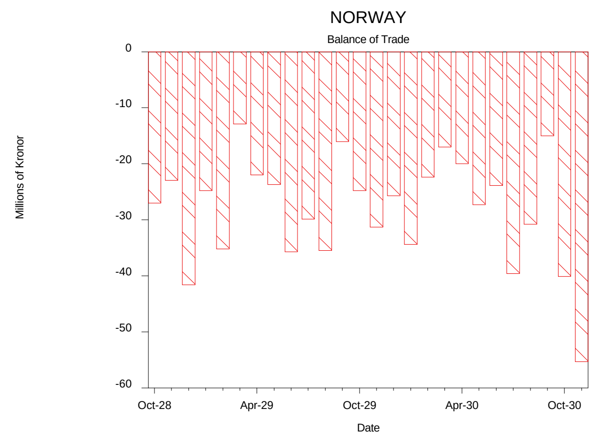
NORWAY
Balance of Trade
Millions of Kronor
0
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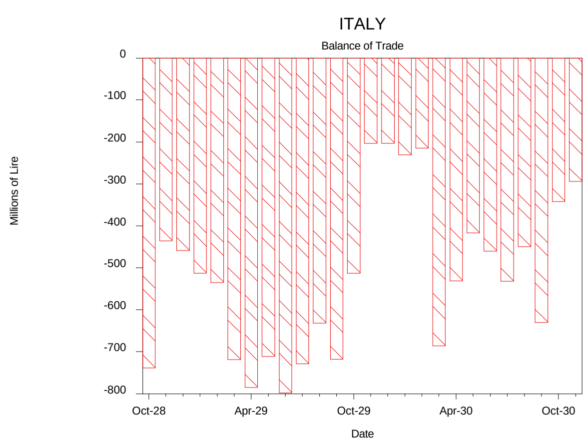
ITALY
Balance of Trade
Millions of Lire
0
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-400
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-700
-800
Oct-28
Apr-29
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Apr-30
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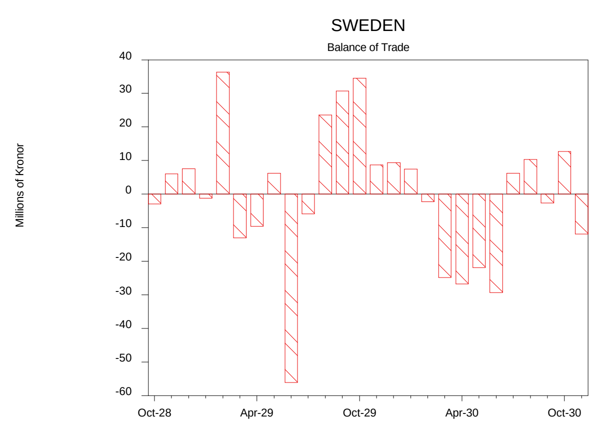
Date


SWEDEN
Balance of Trade
Millions of Kronor
40
30
20
10
0
-10
-20
-30
-40
-50
-60
Oct-28
Apr-29
Oct-29
Apr-30
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Date

House but the provisions for the "flexible tariff" had been greatly watered down.

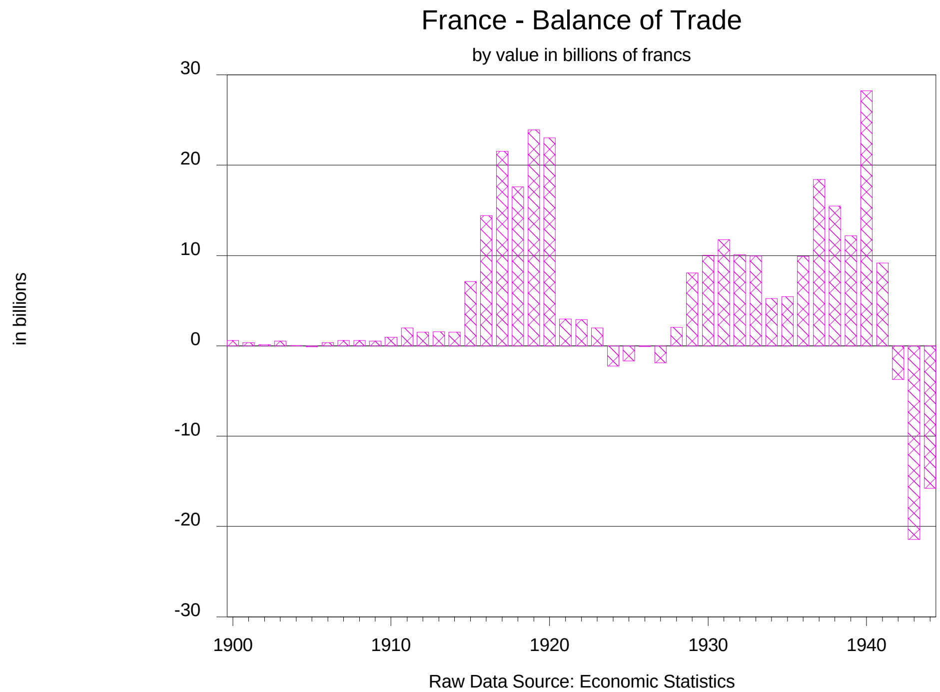
In September 1929, President Hoover appealed to the nation that the "flexible tariff" was essential. The senators, both Republican and Democrat, began to attack the President's flexible tariff. Hoover sent a memo to Senator Smoot on September 27, 1929, which stated: "No flexible tariff, no bill."

On October 2, 1929, the Senate's vote on the flexible tariff was 47 to 42 and it went down in smoke. Hoover's battle to get the tariff decisions out of Congress and into a responsible committee continued. Most of the Democrats were the very politicians who had raised industrial tariffs considerably in their bill striking Hoover's flexible provisions.

On March 24, 1930, the Senate passed a tariff bill on a vote of 53 to 31. The flexible tariff provision was again very watered down. Both Smoot and Hawley fought for the flexible provisions and in May 1930. Hoover wrote the provision that he wanted and sent it to the Hill with an ultimatum that unless his provision for a flexible tariff was incorporated, his vote would be assured.

The Democrats continued to publicly denounce the bill while behind the scenes they demanded more authority and higher tariffs on favored items. On June 7, 1930, Senator Steiwer of Oregon made a public statement in which he revealed that Democratic senators who had voted for increasing the tariff levels behind the scenes were the very ones who were publicly denouncing the bill. That helped to quiet the political statements for a while as a few Democrats appeared with egg on their face, as one would say. Finally on June 12, 1930, the Senate passed the conference report by seven Democratic votes which were needed.

The opponents of the bill began a smear tactic and the press took up the issue primarily over the levels of increases. The flexible bipartisan provisions, which Hoover had fought for so long and hard,



gained little attention. Yet in reality, the Smoot-Hawley Tariff Act was one of the most provocative reforms in the tariff process. Nonetheless, by early July, European response to the Smooth-Hawley Tariff Act was clear. Italy raised its tariffs to absurd levels, even as high as 167% on autos, which was the highest of any nation. In Britain, the bankers advocated that a tariff wall be constructed around the British Empire. France, who had been the instigator behind protectionism not merely with the U.S. but among other European nations, remarked that the new U.S. Tariff Act was "blind economy and selfish nationalism." The tariff retaliation of Europe was far more extreme than any tariffs in pre-1930 history. Ironically, the tariff issue was made up to be far worse than it was by the opponents who exaggerated the bill prompting overreaction on the part of many nations.

On June 15, 1930, President Hoover issued a detailed analysis of the Smoot-Hawley Tariff Act. In his memoirs, his detailed analysis is provided. The President stated: "A statistical estimate of the bill by the Federal Tariff Commission (bipartisan) shows that the average duties collected under the 1922 law were about 13.8 percent of the value of all imports, both free and dutiable, while if the new law had been applied it would have increased this percentage to about 16.0 percent."

The Smoot-Hawley Tariff Act concerned itself with a total of about 3300 items. Of this, 890 items were raised in respect to the amount of tariff to be collected, 235 were decreased, and 2170 remained unchanged. Therefore, the total number of items which were increased represented 27% of all dutiable items.

Over the next two years, Hoover's Tariff Commission reviewed some 250 industrial items and changed the rate of tariff on 73 of those items. The majority of those changes were steps to lower the tariff rate. Nonetheless, on a percentage basis, tariffs ended up rising, due in part to serious fluctuations in foreign exchange. The Tariff Commission was backlogged as Roosevelt suggested in the 1932 campaign. But this backlog actually began within a matter of days. The opponents of the bill immediately besieged the Tariff Commission by dumping upon its doorstep over 50 items to be reviewed before July 1930, in an effort to destroy the Commission before the President could even reorganize and set the Commission up to comply with the law. Despite this, it was a sound concept to establish a bipartisan committee to take control of the tariff issues and take them out of the Congress where special interests had a much more profound influence. Had the serious price fluctuations and the devastating foreign exchange movements in combination with the general instability and lack of confidence in the system not taken place simultaneously, the concept may have worked under more stable conditions.

In the end, the propaganda largely propelled by Roosevelt during the 1932 elections has left a mark on our perspective of the Great Depression and the events which led to its creation. Undoubtedly the trade war was one contributor but that trade war had begun long before the Smoot-Hawley Tariff Act was signed by the President. That unfortunate distortion lives on in our perception of how to manage world trade. Trade must be fair. Regardless of tariffs or quotas both measures seek the same end. But the world must realize that government subsidized industries abroad are a violation of free trade and for any nation to take steps to counter that unfair trade practice is not protectionism but self-defense which must be addressed. To sidestep such practices will in the end create another trade war when conditions reach critical levels. Free trade is precisely that. Protectionism is an act which raises tariffs or quotas to protect an uncompetitive industry. But to enact tariffs or quotas against industries which are not government subsidized in another nation so that they can undercut that industry in trade is an unethical means to remain within a proposed free trade world society.

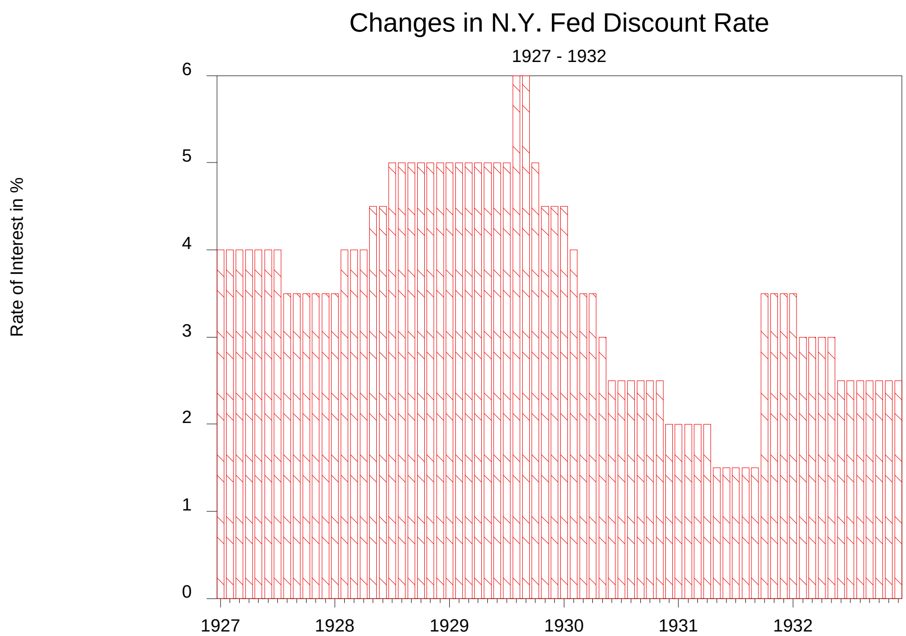
During June of 1930 rumors began to increase of massive "bear-raids." These were supposedly groups of big investors who would sell one particular stock short. These rumors were for the most part proven to be false when the Senate proceedings in later years disclosed the short interests. Nonetheless, when a market moves in one direction or another the rumors must always spread crediting some powerful individual or group for the action. The truth is always that when broad markets move it is the masses that control the trend not a selected few.

June 1930 also began to show a trend which would become one of the most serious by-products of the economic convulsion. In a single week in early June 15 banks closed their doors. The event was reported by the general press but it was certainly not front page news at this time. Here is how Time magazine reported the failures in the June 23 edition of 1930:

"Last week there were 15 less banks in the country. This shrinkage was caused by:

FAILURES. A period of economic stress and strain is always ominously punctuated by bank failures. Ten banks last week closed their doors. Some were small, their failure consequently significant only to the immediate neighborhood. Of more general importance were the following:

"CAUSE: Heavy withdrawals. EFFECT: Bank of Bay Biscayne in Miami, oldest bank in Southern Florida and three subsidiaries failed to open their doors. The four banks had aggregate deposits of over $19,000,000.



To meet possible runs on other Miami banks the Federal Reserve Bank of Atlanta rushed $2 million cash down by airplane announced that $6 million more was en route.

"CAUSE: Allegedly bad Western loans. EFFECT: closing by State Banking department 'for inquiry' of Merrimac River Savings Bank, Manchester N.H. with deposits of $11 million.

"CAUSE: Amos W. Shafer. EFFECT: closing by State Banking Department of Cincinnati's Cosmopolitan Bank & Trust Co. Mr. Shafer broke the bank single-handed. As district manager of Henry L. Doherty & Co. Cities Service specialists he used the firm's account to make away with $632,000 which was within $14,000 of the bank's capitalization."

The story was not altogether that dramatic and it was buried on page 48. But this was a trend that was becoming more noticeable and served in itself as one reason the market would fall in the years ahead as bank failures began to reach the front page. But it should be noted that the famous "banking holiday" when both the exchanges and banks were closed nationwide did not take place until Roosevelt took office in 1933. Massive bank failures were not the fundamental which began this severe decline in 1929 or from the recovery in early 1930. Banking failures began to attract news during the fourth quarter of 1930. However, the majority of those failures were still confined to the Midwest as the by-product of declining commodity values and real estate-backed loans.

During June 1930 banks were in Washington pleading their case for branch banking in front of the House Committee on Banking and Currency. Charles E. Mitchell, famed director of the National City Bank in New York made his case that the small bank was more efficient as part of a large bank, rather than as a small independent. But the House opinion still ran high that mergers meant a monopoly as Mitchell responded: "Banking is not a business which can be monopolized." The hearing would continue for years over this issue as is normally the case in Washington. Eventually numerous banks failed because of the weakness of the small independent bank. Government's concern of monopolies in this area led to hundreds of bank failures in the years that followed.

By the end of June many stocks had fallen to reach near or below the lowest levels of the panic of November 1929. Du Pont was trading at nearly 10 points under its November low of $109. Mack Truck was trading at $46 against its November low of $55. Even AT&T was trading at $201.25 which was close to the November low of $197.25. On June 30 Time magazine commented upon the market as follows:

"Lowered money rates and reduced brokers loans had no effect. It was generally felt that bear operators were ready and able to force continued lows during the present week. Basic cause of the market weakness was the continued fall in commodity prices. Nearly every basic commodity was selling at a lower price than during any other post-War year and some of the most deflated were going back to the beginning of the 20th Century."

Commodities continued to fall. At the end of June silver was selling for 33.7 cents, silk $3.25 per pound, sugar 1.27 cents per pound, rubber 11.75 cents per pound and zinc at 4.37 cents per pound. All five of these commodities were at new lows for the 20th century.

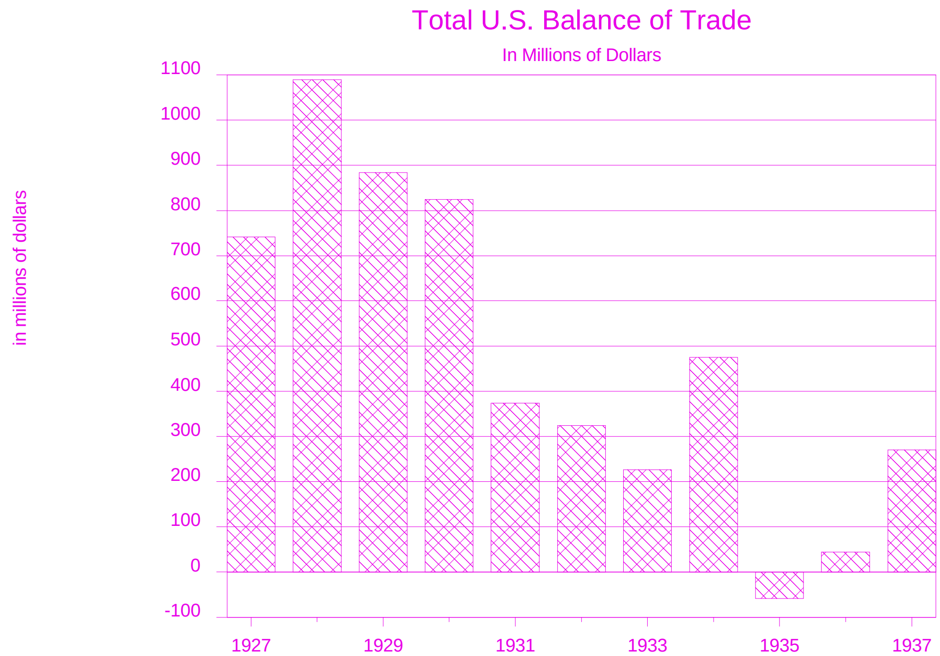
As the second quarter of 1930 came to a dreadful close the consensus of opinion remained well divided. Economists were increasingly pessimistic while many stock market analysts claimed that the November low had held on the broad market ignoring individual exceptions and that the market would turn back up. No matter whom you chose to ask the opinions that were offered were merely speculations in themselves.

As the third quarter of 1930 made its grandiose entrance the market jittery were still alive and well. Not all entrepreneurship had been lost at this point; there were still some brave souls willing to take a chance on the market as well as in business.

Around the beginning of July 1930 a purely American financed enterprise introduced a new American car. It was the Austin named after the British gentlemen Sir Herbert Austin. The car was shockingly different from those other American monstrosities. It was only ten feet long or in other words 28 inches shorter than anything else produced in the States. The Austin was produced in several European nations and over there size was traditionally maintained "small" for several reasons. First and foremost the European governments taxed automobiles upon a size and weight basis. Naturally the smaller and lighter the car the less tax you had to pay. Personal income was not nearly as high in Europe as compared to the States. Therefore European car drivers were also traditionally more economy conscious. The Austin sales were reasonable at first but far from a major threat to G.M., unlike the V.W. beetle in the 1960s.

One of the seldom known facts of the period was that the former President Calvin Coolidge began writing a syndicated daily newspaper article for the press at this time. He began his first column with this note, finally breaking a long-standing period of silence upon the events which were beginning to engulf the world:

"We need more faith in ourselves. Largely because of some decline in trade we have



set about finding fault with nearly everybody and everything. Yet our government our physical properties and our industries have changed very little from a year or two ago when people were fairly content."

Time magazine commented that Coolidge's remarks were "an understatement" as far as "some decline" in trade was concerned. Time was absolutely correct. Bank clearings for the first six months of 1930 according to Bradstreet (later known as Dun & Bradstreet), were off by 16.9% in New York City 14.9% for the nation and 15.9% in Canada. This meant that the velocity rate of money changing hands was declining noticeably. Hoarding of gold coin began to increase by late 1929 as the government stopped issuing new gold coinage of any significance.

The gold coin production in the United States began to come to a screeching halt which only served as a catalyst to further spur onward the trend of hoarding gold.

The production figures for the $20 gold piece were as follows from 1916-1928.

$20 U.S. Gold Coins Minted

1916	796,000	1923	2,268,250
1917	- 0 -	1924	10,300,500
1918	- 0 -	1925	9,546,750
1919	- 0 -	1926	3,339,250
1920	786,250	1927	6,233,750
1921	528,500	1928	8,816,000
1922	4,033,500	1929-33	Minted, not released

*Coins dated 1929-32 bring 10X to 30X pre-1929 gold coins which were in general circulation.

The above table of $20 Double Eagle gold coin production seems to correspond to various economic events as well. Notice that 1924 production was nearly a 5-fold increase above that of 1923. The U.S. trade surplus jumped up 44% in 1924 above that of the previous year which was the single greatest increase during the 1920 era. The trade surplus peaked during 1925 and gold production began to decline thereafter. The trade surplus bottomed during 1927 and then rose nearly 10% during 1928. But

from that 1928 peak in the U.S. trade surplus, it fell nearly 60% going into 1932 and gold coin production came to an abrupt halt.

Another report was released about this time which illustrated a very curious aspect which had taken place during the second quarter. The number of U.S. Steel stockholders had actually increased by 5,557 between the end of the first and the second quarters of 1930. During the bull market on June 30, 1929, U.S. Steel had a total of 105,612 stockholders. Yet at June 30 1930 U.S. Steel had 129,626 stockholders!

After reviewing many of the top companies I found that what had taken place during the recovery period and into May of 1930 was strange indeed. Much of the buying had taken place with an unusually higher proportion of odd-lots. This meant that small investors had gone along with the optimistic attitude which had dominated the beginning of 1930. The buying had actually begun to shift with many of the big players fading away after being wiped out in November 1929.

On July 14, 1930, Time magazine reported several various opinions which had been published concerning the market. They were as follows:

"Hardy indeed is the prophet who will be definite in his predictions for the immediate future. Bertle Charles Forbes who stoutly maintains things have gone far enough, last week said July income can be invested now 'with every confidence.' He predicted: 'The turn of the year will mark the turning point.'

"Guaranty Trust Co. of New York in its survey wrote: 'Recent developments do not brighten the outlook for a marked upturn in the early future...With few exceptions current reports continue to point to further

recession in industrial output and trade volume.'

"U.S. Representative Louis T. McFadden of Pennsylvania, vociferous chairman of the Banking & Currency Committee, made a dire prophecy of much lower price levels even hinted at anarchy and revolution, insinuated that vast machinations by J.P. Morgan-directed group are to blame for everything.

"The Department of Agriculture anxious to reduce wheat acreage came out with a lengthy report of which the essence was: 'While improvement is expected over the low level of prices in the past month, the present prospect is that world wheat prices during the next seven years will average appreciably lower than in the past seven years.'"

One thing that was certain was this. Earnings were declining as illustrated by G.M., which posted an estimated $100 million in earnings at this time compared to $151 million for the same six month period during 1929. Chrysler cut wages by 10% and in Flint, Michigan, tension continued to build after the State Troopers fought off striking employees at Fisher Body Division of G.M. Some wages were reportedly cut sharply, bringing the daily earnings of women employees down to $1.20 per day.

The business commitments given to Hoover at the end of 1929 were voluntary. Although this was a sound and sensible approach, the contraction in economic activity had a mind of its own. The increased Federal and local government spending had little effect. Consumer confidence was declining as gold hoarding rose. Business could not live up to its promise not to curtail spending or cut wages. The reality of a contracting economy was forcing corporations to cut wages or collapse itself.

Many technicians had recalled the various other panics which had taken place in 1907 and 1920. In both cases the decline was approximately 50% from the actual peak in the market. Here the stock market had come close to that 50% correction mark. This led many analysts to believe that the worst was over and that indeed a new base would be built during 1930. Some pointed out that the worst was over back in 1920 within 130 days of the top. The similarities which were drawn between the 1920 collapse as well as the collapse in 1907 were in fact a logical scenario. But then again people tried to compare the 1929 collapse to the mid-1970s and again to the 1982 period. They were wrong in their parallels then as they were wrong about the parallels in 1930 with those of 1907 and 1920.

In Washington hearings on the merger of Standard Oil Co. of New York and Vacuum Oil Co. were raging onward in heated debate. In defense of the merger, SOCONY (Standard Oil Co. of New York) illustrated that in 1909 it sold 92% of all oil in New York and New England. It illustrated that its share in 1929 was only 23%. Since the government broke the Standard Oil Co. of New Jersey into separate companies under anti-trust powers the government continued to reign over the oil industry with an iron fist.

The government called oil men from all over to the hearing to try to prove their case. The prosecutor was the Assistant U.S. Attorney John Harlan Amen. He put Albert C. Woodman who was president of Richfield Oil Corp. of New York on the stand. Amen questioned him asking: "Is your company influenced by the prices established by SOCONY?" Woodman replied: "We are

What is the

Key to Successful Investing?

Why Do Some Men Accumulate Wealth More Readily Than Others?

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not influenced by SOCONY any more than by half a dozen other companies." Amen continued: "What company is dominant in the New York and New England field? Woodman replied again: "No one company is dominant!"

This trial would become a long one. Government was simply not willing to give in. The government called gasoline station attendants from New York to New Hampshire to testify. The defense cross-examined and questioned whether these attendants knew who was the largest oil company and most didn't really know. What was clear was that government was not about to give away its powers of anti-trust now or ever.

In California a gasoline war was raging between the Standard Oil Co. of California and the independents. The war became so heated that at times some gasoline stations were literally giving it away for free. On July 12, the Standard Oil Co. of California made a public announcement. "Effective Saturday morning July 12, at the opening of business, the Standard Oil Co. of California will restore its prices for gasoline to levels prevailing prior to the beginning of the so-called price war. The Standard Oil Co. of California announced as a policy that it will not sell its products to the dealer who cuts his prices."

In the banking industry rumors continued to spread concerning the repeal of the branch banking. Many stock players were looking for suspected mergers and take-overs from which to profit by when the repeal came. Rumors circulated that the Melbank Corp. of Pittsburgh (Mellon family) was lining up at least 50 banks to acquire. The stories told that the second largest bank, Peoples-Pittsburgh Trust Co., had lined up another 25 banks. The stocks

of banking operations were hot at this time, which accounted for helping the stock market's pause from the June low. July continued to edge higher and finally closed at 233.99 on the Dow Jones Industrials up 12.6% from the June low of 207.74.

By now the gossip over the resignation of Waddill Catchings from Goldman Sachs over the Shenandoah and Blue Ridge investment trusts had died down. Previously in June, this issue had sparked a lot of fears. The Blue Ridge fund had peaked in 1929 at 29 5/8 and fell to 3 1/2. The Shenandoah fund dropped from 39 3/8 to 6 7/8. This naturally hadn't provided a lot of good will for the firm at the time and it increased rumors of massive selling by more investment trusts. What had happened was that in the heat of speculation, investment trusts were bid up far beyond the asset value of the trusts themselves. The same thing took place during the mutual fund boom of the mid-1960s. As a result the losses of many investment trusts far exceeded those on a percentage basis of their composite stock holdings. This is an important note that investors should keep in mind. A mutual fund whose share value is based solely upon assets rather than speculative demand is the wiser investment for the mutual fund buyer.

At the end of July the press carried the interesting comments of Franklin D. Roosevelt who was Governor of the State of New York at the time. After an inspection tour of the State insane asylums he proceeded to make a public statement. It was picked up by Time magazine as follows: "Unemployment and worry over economic circumstances are helping to break down mental stability." Apparently, F.D.R. attributed the abnormal increase in the number of institutional patients to the break in the economy.

As early August approached the U.S. shipyards reported that they were at their busiest level since 1921. Their employment roles were moving counter to the economic trend. In July 1930, shipyards employed 19,812 men, which was a 21% rise over and above that of July 1929. The amount of tonnage under construction was up almost 100% over 1929 levels. But the U.S. was merely gaining some business on a worldwide basis. They were second to Britain in shipbuilding but that was only a 7.8% share. Britain held 45.5% of that market. The increased employment in shipbuilding was a direct result of Hoover's policies to increase government spending.

Second quarter reports began to emerge at this time. AT&T turned in an impressive report which showed an earnings gain of $14 million over and above the first half of 1929 with a net improved bottom line of $1.5 million. They also reported that they had added 165,000 new phones during the first half-year of 1930.

General Electric reported that sales were up $3 million from 1929, but on a $197 million sales level it was a very small percentage gain. But what made it worse was that their expenses rose, reducing their earnings from $1.07 to $1.02 per share.

One of the nice performers was American Chain Co, Inc. They reported net profits of $1.2 million for the first half of 1930 compared with $1.03 million for the same period in 1929. Earnings per share jumped up from $2.63 in 1929 to $3.30. The chain store business on a retail level was still alive and well.

The most dramatic rise was that of the Great Atlantic & Pacific Tea Co. which many know as the A&P food store chain. They had 17,000 stores in operation, which combined posted sales of $548 million for the first half of 1930. This was a rise of $41 million, an 8.13% increase over and above the first half of 1929.

Campbell Soup Co. announced that it had sold 2.3 billion more cans of its tomato soup during its fiscal year ending June 30, 1930 than during 1929.

William Wrigley Jr., Co.(Wrigley Gum) reported that its first half of 1930 posted earnings of $5.6 million, which were up $436,000 over 1929. American Chiclet Co. also reported earnings of $1,081,000 against $1,039,000 for the previous year.

It was clear from these reports coming in that the consumer had not yet stopped the pursuit of retail items. Perhaps the automobile had reached its saturation point in 1929. A viable used car market was developing as well which obviously cut into their sales following the peak of 1929. But on the whole, the average consumer was still buying the necessities such as food and clothing along with the lower priced non-luxury goods.

August remained essentially a sideways affair. During the first two weeks the market tended to press lower. News was still mixed and many felt that the June low would hold. During mid-August McGraw-Hill's "Engineering News Record" publication reported that engineering construction was off 17% nationwide. The survey was conducted on a sectional basis. The New England States showed virtually no decline whatsoever. But the Midwest particularly hard hit by the continued decline in commodities showed a 42% decline in activity. Another building industry statistician and trade publisher reported in August with their survey that in 37 states east of the Rockies a decline of 44% from July 1929 had taken place in construction.

Time magazine also reported in August that unemployment in the building industry was currently running 37% compared to 16% during 1929. Time commented on the situation as follows: "Chief reason for the decline in construction is that money, while cheaper for many purposes, has not been diverted back into mortgages as predicted. Interest rates on first mortgages are still 5.5% to 6% while seconds must yield at least 7%. Yields on 15 private building bond issues during June averaged 6.2%. Banks and building & loan societies are reported to be loaded up with property acquired through foreclosure the construction field is considered 'overbuilt' except for special buildings."

Apparently despite the decline in rates banks were still maintaining high rates on mortgages. Due to the sharp rise in short-term rates during 1929 banks had gotten burned severely in the real estate long-term loans. As a result they would be reluctant to return to long-term mortgages until the late 1930s.

The Harriman National Bank & Trust Co. issued a bulletin which it distributed to its patrons. The commentary is interesting and offers a little insight into the feelings of the time. They made the following statement:

"Merely being burdened with an incompetent incapable Senate gives us no reason for lamenting over our condition. Should we give as much care in attending the coming primaries and selecting proper, intelligent representatives for Congress as we do in selecting even our golfing and fishing outfits, that too, may be remedied. Fundamental conditions in America are safe and sound."

Indeed the majority of market analysts began to turn bullish during August of 1930.

The June decline had been sharp and severe; there was no mistaking that whatsoever. But it held the previous low! they argued heatedly. In Collier's, a well-read publication at the time, Col. Leonard P. Ayres of the Cleveland Trust Co., wrote his comments upon the situation: "Now arises the emotion of fear. Things were (last spring) brighter looking than they were. Now they look darker than they are. This is the last phase of the depression!"

In August Roger Ward Babson known by many as the "Prophet of Doom" since his correct call of the top in September 1929, issued his first buy signal. He made several recommendations of a variety of most active to best yields. Barron's ran a nasty article which took a shot at Babson asking if this prophet was able to foresee the decline then why didn't he have the power to prevent it as well. Nonetheless, Babson and Ayres were joined by Thomas B. Macaulay, President of Sun Life Insurance Co. Macaulay's statement was carried by Time magazine which called it the most "bullish utterance yet heard from a responsible financial rather than a political source." Macaulay's statement was: "I think by the end of this year selected common stocks of the type we have in our portfolio will on the average have regained in market value 60% to 70% of the loss sustained last autumn. By the end of 1931 or at any rate of 1932, I expect the average to have perhaps even attained the 1929 peak again."

As August come to an end the market rallied and closed at the July high. The holiday cycle seemed to be at work during 1930 as well. The market had fallen sharply in June and then after the July 4th holiday it had begun a rally. Now as Labor Day approached it was nearing the highs for this cycle. The market closed quite bullish going into Labor Day. But after the holiday the market pushed a touch higher peaking at 247.21 on the 10th of September before beginning its decent.

In September 1930, Russia was selling large short positions in wheat on the Chicago Board of Trade. The Soviets at this time were a net exporter of wheat which further helped to depress the price of agricultural commodities. The Soviets in need of hard currency were actually rationing food at home and selling much of their supplies in the Western markets. Hoover disapproved of the Soviet short sales and demanded that the Board of Trade prohibit short transactions by foreign governments. The Board of Trade was reluctant to go along with this proposal and Hoover threatened Federal control. The Board complied. Russia then turned and dumped its wheat in Europe driving the prices down several cents a bushel.

September collapsed with the market dropping and closing near the low of the month at 204.90. October managed to rally briefly, but then the selling pressure was too great. Down it fell closing near the low of the month once again but this time it was under the magic 200 mark finishing at 183.35 on the Dow Jones Industrials. October had violated the November 1929 low. There was no doubt about it. A bear market was still in place.

The news which broke the back of the market was persistent. During the first six months of 1930, 471 banks had failed taking with them $210 million in assets. It was reported that 62 were members of the Federal Reserve System. Most of the bank failures were small independents suffering from declining real estate backed loans largely in commodity oriented sectors of the nation.

In addition to the banking news, failure among brokerage houses seemed to have a more profound impact upon the market. That was the case on the day that the market penetrated the 1929 November low. Time magazine reported the events as follows in their October 13, 1930 edition:

"All Monday Wall Street was flooded with rumors that a house would fall. Tuesday morning stories of pending insolvencies were thicker, more persistent. At 1:30 President Richard Whitney mounted the rostrum of the Exchange. Trading was supplanted by a tense silence. Then an excited roar greeted the announcement that J.A. Sisto & Co. Inc. were unable to meet their engagements. Selling pressure increased. By the close of the market 34% of the common stocks listed were at least 20% below their old 1929 bottoms while 59% touched or dipped under that level. Thus was greeted the first notable failure of the year. On the Curb from which the company was also suspended support was practically withdrawn from stocks identified with Sisto."

A severe drought in the United States began in August 1930. Throughout the Midwest and the South, nearly 1 million farm families were affected, in addition to nearly 20 million animals. The initial crisis created a severe shortage of feed for the animals. Hoover arranged for the railroad freight rates to be cut in half for foodstuffs shipped into the stricken area. The drought merely became worse and turned much of the Midwest into a dust bowl.

The freight traffic on the railroad system dropped sharply. In October it was reported to have reached a ten-year low. The Chairman of Continental Illinois Bank & Trust came out in October with his prognostication of the economy. "The fact is that

While all the worrying is being done over business the improvement is already under way. I should not be surprised if by the middle of December we find conditions considerably improved."

The unemployment situation was not fading away. On September 9, 1930, President Hoover took steps to curtail immigration in the United States. All immigration was stopped with the exception of tourists, students and professional men and women. A large number of people were still attracted to the United States and many remained unemployed. In 1929, 279,678 immigrants entered the United States. In 1930, 241,700 had entered. Hoover's measures brought this down to 97,139 for 1931 and 35,576 for 1932. The Labor Department was also instructed to rigidly enforce the laws against illegal aliens and in 1930, 16,631 deportations were made. This measure continued, resulting in 18,142 deportations in 1931, 19,426 in 1932 and 19,865 in 1933. This policy was reversed by Roosevelt and deportations declined to 8,879 in 1934.

At the American Bankers association meeting held that October, members retreated from their position against branch banking. But they also released their statement upon the economic conditions. "The depression in this country is merely part of a world-wide situation due largely to the sharp decline in the price level of raw commodities. There are evidences that the present depression has just about run its course."

The New York Times published a survey of corporate dividends. There had been 91 companies which failed to pass a dividend to their shareholders. But the general trend seemed to refute the whole concept of a depression. Prior to the peak in 1929, dividends had played a sizable role in forging the market substantially higher. Yet here we find that the tactics of many companies included passing dividends which were perhaps unwarranted. Nevertheless, the New York Times composite of dividends on an industry by industry basis illustrated that 1930 dividend levels were by and large above those during the raging bull market. Clearly, upon reviewing this list, one must give second thought to dividends as being a reliable factor in a marketplace. The pessimism had actually reached such heights that it didn't matter how much a company was paying or earning. All that mattered centered around the pessimism that basically asked how long could they continue to pay?

The table published by the New York Times in October was as follows:

DIVIDENDS EXPRESSED IN MILLIONS

First 9 months each period

	1930	1929
Banks & Insurance	222.3	108.2
Chain Stores	85.8	49.0
Coppers	144.6	110.0
Department Stores	22.3	16.5
Food & Packing	195.5	106.7
Mail Order	21.5	10.0
Motors	161.1	167.2
Oils	349.1	241.9
Public Utility	730.8	448.8
Railroads	376.2	308.3
Rail Equipment Prod	41.9	40.8
Steels	146.2	100.7
Tobaccos	75.2	61.8
Misc	995.4	603.0

The above table clearly illustrates that even on an overall basis dividends were higher. Many industries were not yet feeling the pain of the depression as consumer spending did not apparently drop off that sharply at this point in time for some while others passed higher dividends in an effort to support their stock values. The rising dividends did attract some small investors buying for cash. This is supported by the fact that the number of shareholders of blue-chip companies was rising during the 1930-1932 period despite the decline in share value. But this is also a valid reason why foreign investors were also attracted. As the dollar rose in 1931 its appreciation helped to offset the decline in share value in terms of dollars while in terms of pounds, stocks still appreciated. The crisis seemed to loom largely among the "educated" U.S. classes of professional investors in respect to the markets.

The decline in the stock market definitely appeared to be highly influenced by the withdrawal of foreign capital. This thereby depressed the financial markets which had a lagging effect upon the economy. As the trade surplus continued to decline, this further increased unemployment and gradually affected the confidence of the working class as well. But the real drain upon the emotion of the nations was certainly the stories of failures and bank closings.

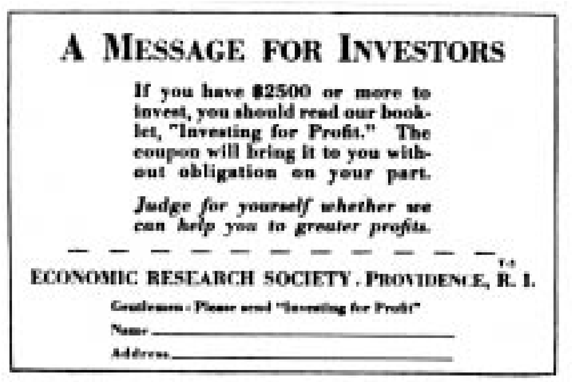
During November the market continued to press lower as 64 banks in Arkansas either failed or invoked a State law permitting them to close for five days. In the whole state there were but 437 banks at the end of 1929. In Kentucky 15 out of its 579 banks failed. Most of the failures were directly related to commodities as the prices in that category continued to decline.

The Dow Jones Industrials pressed lower still during November. December brought little relief as the market continued its decline, dropping to 158 and closing the year at 163. By the first week in December the New York Stock Exchange had suspended its seventh failure of a member. But up until now the majority of bank failures had been in the Midwest. But in December the Bankers Trust Co. in Philadelphia failed taking with it $55 million in assets. At last the banking failures were coming closer to Wall Street. The Dow Jones Industrials closed 1930 at 164.58 down 57.5% from the intraday high of September 1929.

But of all the banking failure stories perhaps the most distorted incident was the trouble at the Bank of the United States. It has been a popular legend that what started or contributed to the depression was the failure of this bank whose name many mistook for the Treasury. There was some hysteria but no one with half a brain believed that it was the U.S. Treasury. By December, the first 11 months of 1930 had brought with them 981 bank failures. Despite the fact that most were in the drought stricken commodity area tension had built as public confidence had continued to deteriorate.

In Bronx N.Y., a small merchant went down to the branch of the Bank of the United States and asked officials if they would buy back stock in the bank. The officials told the man to keep the stock because it was a good investment. The merchant somehow misunderstood what the bankers had told him and turned it around in his mind that it was a refusal to buy back the stock on the part of the bank.

By mid-afternoon the merchant had gone around telling everyone that the bank refused to buy back his stock and that obviously something was wrong. With news of numerous bank failures in the Midwest it didn’t take long before the citizens in the Bronx believed that the bank of the United States was about to fail. A sizable run on the bank broke out that same afternoon and the police had to be called in to restore order. The bad news spread like wildfire to all the other branches of the bank.



The run on the bank of the United States had become so widespread spawning absolute chaos that that same afternoon an emergency meeting of all the major New York bankers took place on the tenth floor of the New York Federal Reserve building. But in reality the run on the bank had actually begun in a quiet fashion several weeks prior. Rumor had it that the Fed was trying to set up a merger for the Bank of the United States with three other banks. Just two days prior to the run it had been announced that the third attempt to merge the bank had failed.

The emergency meeting of 100 banking executives brought back memories of the Panic of 1907 when a similar meeting had been held. Everyone from Mr. Lamont. of J.P. Morgan to Charles Mitchel of the National City Bank was in attendance. The meeting was held in the Governor's Room and it continued until 4 a.m. before it completely disbanded. The reporters were trying to stay awake hoping to grasp the first comment on the situation. Then Joseph A. Broderick, Superintendent of Banks in New York State came forward and told the reporters that he would have a statement in the morning. Everyone knew what that announcement would be. The bank had failed!

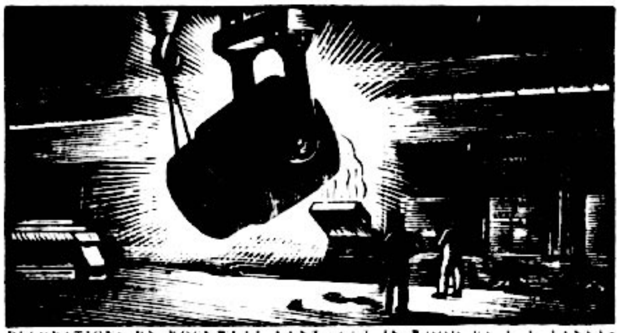
It was the European press that blow the entire affair way out of proportion. The ill-fated name of the Bank of the United States was equated in size and statue to the Bank of England which of course was "THE" central bank of Britain. But outside the Bank of the United States nervous depositors had been lining up since 7 am waiting for the bank to open. Of course the doors failed to open that day.

The banking industry insisted that the bank of the United States was merely a small state bank which had too many outstanding loans tied up in real estate. Its insolvency was further fostered by the outstanding loans to members of the fur trade.

On the New York Stock Exchange some nervous selling ensued but this was largely focused among the banking stocks themselves. Had that merchant been able to sell his stock the day he began the run he could have fetched about $11.50 a share. By the close of that same day he would have been lucky to have obtained $3. At the peak of speculation in 1929 shares of the Bank of the United States had once traded at $240 a share.

Thus ended the year 1930. Confidence among the "financially unaware" was beginning to crack and crack hard indeed. The lack of confidence would continue to spread gradually into 1932 bringing with it the demise of the world economy itself.

Selecting . . Industrial Investments



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In the year 1927, when the total of manufactured products was more than $62,718,000,000, nine of the sixteen "billion dollar" industries showed an actual decrease in production under 1925. Even in the industries showing the greatest loss, however, some companies showed a decided gain, both in production and in profits.

Interpretation of these figures shows the need of constant supervision of industrial investments. For while the gains have continued and will continue, the leaders of one period are not necessarily the leaders of another.

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