# New York Stock Market (August 10th)

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Broadly speaking, the market has been unable to make any real headway since early July.

Following the rapid rise that got under way about mid-June and carried the Dow-Jones industrial averages from about 113 to about 139 by July 2nd, the market has been in a broad area of effective resistance with a series of two successive bulges topping out at almost identical spots (approximately the 145 level). The maximum reaction experienced thus far has been down to around the 136 level, thus representing a cancellation of about 25% of the last upswing and therefore somewhat less than the conventional expectations. Because of this fact, expectations of somewhat lower levels are rather widespread.

The most logical explanation for the general sidewise movement of the past month or two is the habitual relationship between business activity and the stock market. With the stock market during the latter part of June and early July running substantially ahead of the business curve, hesitation was natural, but with the vigorous upswing in business activity (the latter has advanced sharply in the past few weeks and is currently at a new high for the recovery movement), the relationship is about the same now as that existing before the beginning of the dynamic rise in share values. Thus, if it is reasonable to suppose that business activity is to rise still further over the near and intermediate future (best advices indicate that by October the Federal Reserve Board index of industrial production will cross 90—the index for July was 83) then it is illogical to expect any serious or protracted decline.

The foregoing is, of course, predicated entirely upon domestic business conditions, giving no consideration to the evidently serious situation existing in Central Europe. However, the progress of business in America has overshadowed (at least temporarily) the unfavorable political developments abroad which would ordinarily exert a depressing influence on security prices. The unwillingness of the London market to decline seriously in the face of the flood of menacing news is, unquestionably, a reflection of European opinion regarding the possibilty of the present tension developing into a major conflict. From a practical market standpoint, however, this latter contingency must be taken into consideration in planning an investment program. It will be remembered that at the outbreak of the world war in August 1914, the New York Exchange was forced to close in order to prevent demoralization of prices due to the huge offerings of stock from abroad. Closing in the latter part of July the Exchange did not reopen until mid-December and, while the Dow-Jones rail averages failed to decline, the industrials immediately lost about 20 points, and a few days later made their low from which a rise was to begin that carried prices steadily upward for over a year with only one serious interruption.

All things considered, it appears that the principal question, in the present situation, is the internal or techncal position of the market and whether the reactionary phase that carried prices down to the 136 level constitutes the full measure of correction necessary. Frequently, in a bull market, underlying strength is such that reactions fail to reach conventional limits and technical requirements are satisfied by an extended sidewise movement. Until more evidence is presented to the contrary, it may be assumed that the current market represents a case in point.