

New York Stock Market

By Glendon B. Loveless
Ovejero & Hall

Signs of business improvement in America are becoming more emphatic, establishing the first real grounds for hope since mid-1937 when business indices began their spectacular decline.

The first faint evidence of returning confidence displayed itself in the attitude of the public towards the \$100,000,000 debenture issue of the U. S. Steel Corporation in the early part of 1938. This offering of bonds to the public was the first financing, by the Corporation, involving the sale of bonds since 1907. Nevertheless, the debentures were over-subscribed before they were issued and went to a premium bid almost at once. In contrast to this, was the experience of the underwriters who, early in 1937, offered \$50,000,000 Bethlehem Steel Corporation debentures. When repeated lowering of the offering price of this latter issue failed to attract buyers, the underwriters were finally forced to absorb the greater portion themselves.

What, then, was the reason for this about face on the part of investors in the short space of a few months? The answer, we believe, is that, within that comparatively short period, investment confidence began to return, and funds which had hitherto

been idle, began to seek employment. Recent action of the stock market has furnished additional evidence to that effect, in a quickening of investment and speculative interest in common stocks.

Ordinarily, surplus funds are at a minimum at depression lows and improved security values are largely brought about by anticipated increased earning power on the first sign of better business conditions. However, in the present instance, the pressure of idle funds, seeking investment upon almost any terms, has apparently been an important factor in the current rise, and it therefore seems likely that the effect of improved earning power may make its influence felt at a later period in the improvement cycle than is customarily the case.

In appraising the market, we discover, for example, that investors are paying \$70 for Chrysler Corporation whose earnings report for the first 6 months of this year show net income of only \$1.31 a share, nor is this an isolated case. As a matter of fact, it has been authoritatively stated that the present price-to-earnings ratio of the market, as a whole, is higher than in 1929.

Business activity, as measured by the New York Times Business Index, stands at 81.7

today, against a low on June 4th of 75. The improvement has yet to produce a visible effect on earnings which, in the long run, are the only basis upon which a sound built market structure can be erected and maintained.

Meantime, the technical position of the market appears as satisfactory as at any time during the recent rise. Adverse news in the form of border clashes between Russia and Japan and uninspiring second quarter earnings reports, have signally failed to shake out any appreciable amount of stock, this, too, in the face of a 34 point rally which has experienced only two 3 point reactions. Nevertheless, a technical correction will eventually take place, the timing and extent of which is, however, very difficult to determine.

While it is true that most experienced observers during the middle of June were expecting a further decline in security prices, and further, that the initial upward impulse from a period of almost complete stagnation was probably mainly the result of short covering, the subsequent action of the market indicates that the bear market has, in all probability, run its course. It is evident that cash buying of equities has been substantial. Moreover, it is almost safe to assume that much of the buying, other than short covering, has been of investment character, and that the market has not yet reached the stage where, "cats and dogs" are being bid up indiscriminately.

Perfection!!

Truly, this grand old brew

San Miguel Pilsen

can be called the perfection of inviting refreshments—with its perfection in taste, brew, and quality—

a product of the

SAN MIGUEL BREWERY

where the mark "Quality" means Quality

MARSMAN TRADING CORP., Baguio Agents

