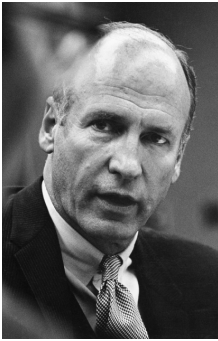


# We have been here before



Former Capital Group chairman **Jim Fullerton's** comments from a 1974 speech are still relevant today

The excerpts below offer perspective on the current upheaval in global markets. These comments were delivered in a speech on November 7, 1974 by Jim Fullerton, then chairman of The Capital Group Companies, Inc. While spoken more than 30 years ago, Jim's words describe an environment that is remarkably similar to today's.

One significant reason why there is such an extreme degree of bearishness, pessimism, bewildering confusion and sheer terror in the minds of investors, is that most people today have nothing in their own experience that they can relate to, which is similar to this market decline. They have the feeling that *no one's* ever been here before, because *they* haven't been here before.

My message to you is: Courage! We have been here before. Bear markets have lasted this long before. Well-managed investment portfolios have gone down this much before. And investors in those portfolios survived and prospered.

I don't know if we have seen the absolute bottom of this prolonged bear market, although I think we've seen the lows for a lot of individual stocks. I also personally believe that right now, good common stocks in general, and well-managed investment portfolios in particular, probably represent the greatest opportunity for long-term investors that we have seen since early 1942.

In fact, in April 1942, the *Wall Street Journal* stated: "Brokers say that the lack of trading in stocks and the rising tide of buying bonds stems from the public's search for the scarce factor these days — security."

Yet on April 28, 1942, in that gloomy environment, in the midst of a war we were losing, faced with shortages of gasoline and other crucial materials, and with the virtual certainty in the minds of everyone that once the war was over we'd face a post-war depression, in that environment, the market turned around.

There was no selling climax. There was no resolution of the serious problems and uncertainties that faced the country and the world. There was no piece of significant good news. And yet, by June 30, 1943, the Dow Jones Industrial Average had made a gain of 54%. By the end of May 1946, four years after the April 1942 low of 92.91, the DJIA stood at 205.61 — a gain of over 121%.

What turned the market around in April of 1942?

Simply a return to reality. Simply a slow but growing recognition that despite all the bad news, despite the gloomy outlook, the country was going to survive; that strongly financed, well-managed corporations were going to survive also. The reality was that those companies were far more valuable than the prices of their stocks indicated. So, on Wednesday, April 29, 1942, for no apparent visible reason, investors again began to recognize reality.

They began to realize that the fact that common stocks had declines for over five years and had been brutally disappointing investments, did not mean that common stocks would never be good investments again. Investors slowly began to look forward and not backward. When they did that, the fact that common stocks had declined for five years became irrelevant.

No one can invest retroactively. The only meaningful question is: “What should I do with my money now?” So I'd like to make a few comments about investment reality:

- The Dow Jones Industrial Average is not reality. Reality is not price/earnings ratios and technical market studies. In the real world, companies create wealth. Stock certificates don't.
- Reality is millions of people going to work every morning and providing services that create billions in annual revenues and net profits for common stockholders. That's what creates wealth.
- Reality is the scores of well-managed companies, with strong balance sheets and solid earnings, that are situated in the path of progress and are simply going to be swept along with it, regardless of what happens to the wiggles in the economy.
- Reality is the fact that it is only through owning assets and a rising stream of dividends that the investor can enhance his capital.

Now I'd like to close with this: “Some people say they want to wait for a clearer view of the future. But when the future is again clear, the present bargains will have vanished. In fact, does anyone think that today's prices will prevail once full confidence has been restored?”

That comment was made over 42 years ago by Dean Witter in May of 1932 — only a few weeks before the end of the worst bear market in history.

Have courage! We have been here before — and we've survived and prospered. ■

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