

It is a gloomy moment in the history of our country. Not in the lifetime of most men has there been such grief and deep apprehension; never has the future seemed so incalculable as at this time. The domestic economic situation is in chaos. Our dollar is weak throughout the world. Prices are so high as to be utterly impossible. The political cauldron seethes and bubbles with uncertainty. Russia hangs, as usual, like a cloud, dark and silent, upon the horizon. It is a solemn moment. Of our troubles, no man can see the end.

1857 Harper's Weeekly.

On May 6th, 1932, after stocks had plummeted 85% from their 1929 high, Dean Witter issued the following memo to its clients:

"There are only two premises which are tenable as to the future. Either we are going to have chaos or else recovery. The former theory is foolish. If chaos ensues, nothing will maintain value; neither bonds nor stocks nor bank deposits nor gold will remain valuable. Real estate will be a worthless asset because titles will be insecure. No policy can be based upon this impossible contingency. Policy must therefore be predicated upon the theory of recovery. The present is not the first depression; it may be the worst, but just as surely as conditions have righted themselves in the past and have gradually readjusted to normal, so this will again occur. The only uncertainty is when it will occur.....I wish to say emphatically that in a few years present prices will appear as ridiculously low as 1929 values appear fantastically high."

Then,

Mood and Route to the Plunge

To the question “What has gone wrong in the market?” There is only one real answer. The market came down because it had gone too high. It fell precipitously and for some people ruinously because so many stocks had so far to fall before they would reach any firm or solid foundation.

With such a vast bull market rising so spectacularly that anybody with eyes was bound to see it and anybody with a normal quota of human greed was bound to hanker to climb aboard. Over the past eight years, millions of new investors jumped into the market for shares listed on the New York Stock Exchange. When they ran out of stocks on the big board on the American Stock Exchange, people turned to the new issues traded over the counter. They were companies with untried management, small earnings and dubious prospects, with nothing but a prayer and a catchy space aged name which would bid up as much as 400% within a few months.

From time to time some of the experts had their doubts. The reasons stocks are so popular, one analyst said, is that we have a whole new generation of investors who don't know that stocks can deal you dirt.

But the investors kept pouring in and anybody who wanted to make money in the market had to ride along with their optimism. Those who showed the biggest profits were those who took the biggest chances. Even some of the most astute money managers were finally persuaded that they could pay outrageous prices for stocks on the assumption that the prices would still go higher. It is strange how rapidly once the trend begins that optimists can become pessimists. The glamour stocks began falling early last year and the more conservative stocks are measured by the Dow Jones average in December. They have since fallen steadily and sometimes with such rapidity as to make front page headlines regardless of all business or political developments.

The market is badly in need of a correction as market analysts said, self critically; the trouble was we got away from any real study of security values into a numbers game. It's too early to say whether the bull market has ended or not but it has certainly ended for some of the stocks that got out of line.

- **Reprint, Life Magazine, May 28, 1962**
- **Dow Jones Industrial Average fell from 700 points to 550 points**

*“Thirty years ago, no one could have foreseen the huge expansion of the Vietnam War, wage and price control, two oil shocks, the resignation of a president, the dissolution of the Soviet Union, a one-day drop in the Dow of 508 points, or treasury bill yields fluctuating between 2.8 per cent and 17.4 per cent. But, surprise! None of these events made the slightest dent in Ben Graham’s investment principles. Nor did they render unsound the negotiated purchases of fine businesses at sensible prices. Imagine the cost to us, then, if we had let fear of the unknowns cause us to defer or alter the deployment of capital. Indeed, we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist. A different set of major shocks is sure to occur in the next 30 years. We will neither try to predict these nor profit from them. **If we can identify businesses similar to those we have purchased in the past, external surprises will have little effect on our long-term results.**”*

(Warren Buffet, 1994)