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# Wall Street: Overreacting

This week the U.S. enters what promises to be its sixth straight year of economic expansion, and almost everything is rising—except the stock market. It has been falling since early February, and last week Wall Street's bull was still reluctant. The Dow-Jones industrial average dropped 25 points in three days, touched a 1966 low of 950.66, then rallied fitfully at week's end to close at 953—scarcely higher than last October. Measured by the important price-earnings ratio, stocks are lower than they were at the low point of the 1962 break. They are now selling at an average 16.3 times expected 1966 earnings, compared to a 17-to-1 ratio in the bleak summer of '62.

Prices are low because worries are high, and investors are reacting—probably overreacting—to the economic implications of the Viet Nam war. They are afraid of higher taxes and more controls on the economy, perplexed by the squeeze on credit and pressure on profit margins. In this emotional atmosphere, such basic and broadly held stocks as oil, drug, retailing, chemical and utility issues generally weakened last week; many popular highfliers in electronics, color television and office machines held fairly firm. But as prices fell, so did trading volume on the New York Stock Exchange—a technical indication that prices may soon rebound.

Some of the stock market's troubles stem from a worsening shortage of investment money. Salomon Bros. & Hutzler, a leading bond-trading house, predicted that commercial banks will have $3 billion less to put into long-term credit this year than last. With a swiftness that startled even investment men, the money shortage has driven interest rates on some new bond issues to 45-year peaks, prompting investors to sell stocks in order to buy bonds. Last week $40 million of Long Island Lighting Co. bonds went on sale with a 5.13% interest return, one of the highest yields ever placed on a corporate issue of its type. The Federal National Mortgage Association had to pay a record 5.38% to sell $250 million of 14-month debentures. Despite an extraordinarily high 5½% interest, Washington's Export-Import Bank was able to sell only half of a new $700 million issue of participation certificates in existing loans. That embarrassing failure damaged President Johnson's plans to sell off $4.7 billion of U.S. paper assets to cut next year's budget deficit—the size of which is already worsening the worries about inflation.



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