

# John Dessauer Investments, Inc.

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**John Dessauer's market review and update as of Wednesday November 30, 2016**

**The Dow Jones Industrial Average has reached a new record high above 19,000. All of a sudden the once ridiculed prediction of Dow 20,000 doesn't look so farfetched. There is a book on a shelf in my office titled "Triumph of the Optimists" We don't have to wait for Dow 20,000. Dow 19,000 is good enough to say to all the pessimists - especially those who preyed on investors in the 1970s - that the optimists have triumphed.**

With perfect hindsight, pessimists have used the stock crash of 1929 and the depression that followed to terrify ordinary investors every time the economy faltered or the stock market declined. The 1970s became a special time for pessimists to line their pockets at the expense of vulnerable individual investors. There was a proliferation of gloom and doom newsletters. Howard Ruff's letter called "Ruff Times" was endorsed by none other than the U.S. Secretary of the Treasury. That is how entrenched the pessimism became.

The Dow Jones Industrial average first rose to seriously test the 1000 level in 1966. The Dow's high for that year was 995.2. For the next six years Dow 1,000 was a ceiling. In 1972 the Dow finally rose above 1000 to end the year at 1036. In early 1973 the upward thrust continued, taking the Dow to 1052. It was technology exuberance that carried the Dow above 1,000. In 1973 Xerox, for example, traded at \$123 a share and more than 70 times earnings. The exuberance was short lived. Texas had lost control of the oil price, because America's oil needs exceeded what Texas could supply. Oil pricing

power shifted to Saudi Arabia and later to OPEC. In the 1970s gold was the currency of the Middle East. Saudi and other Middle Eastern oil producers demanded gold in exchange for their paper dollars. President Nixon was forced to cut the link between dollars and gold for fear of having the U.S. gold supply drained away. U.S. inflation rose to 6.2% in 1973 and 11.1% in 1974. Interest rates followed, and stocks collapsed. The Dow hit a 1974 low of 577.6, down 45% from its 1973 high. Legendary investor Peter Lynch saw the fund he managed lose 50% of its value between 1973 and 1974. It was difficult to impossible to be an optimist in the 1970s. Pessimists found it easy to convince individual investors that stocks were and always would be a losing proposition.

The U.S. dollar was another casualty of the 1970s. The Middle East was flooded with unwanted U.S. dollars. The dollar fell sharply, especially versus the currency of Switzerland. The Swiss held more gold reserves backing their currency than other countries. Before the shift in oil pricing power one U.S. dollar bought 5 Swiss francs. A few years later the dollar had lost 50% and bought only 2.5 Swiss francs. Middle Eastern dollars were also used to buy gold. Popular pessimists in the USA urged their followers to do likewise and buy gold. In early 1980 gold briefly traded above \$800 an ounce.

Imagine the plight of the pessimists' followers who sold all their stocks and bought gold at \$600, \$700 and even \$800 an ounce in the 1970s. The Dow has since multiplied by 19 while gold has climbed only modestly. And gold pays no dividends.

Stocks remained out of favor in the early 1980s, even after President Ronald Reagan took office in 1981. Forgotten amidst the anti-Trump rhetoric is that President Reagan was greeted with similar hate mongering. Following his election he was vilified, even compared to Adolph Hitler. My good friend Gary Alexander has a wonderful

memory. He reminded me of the anti-Reagan attitude that prevailed in 1980 and 1981. Here is an example of how the left-leaning media reacted to Ronald Reagan's election victory:

“The United States has embarked on a course so deeply reactionary, so negative and mean-spirited, so chauvinistic and self-deceptive that our times may soon rival the McCarthy era.”

In March 1981 when Ronald Reagan was shot, some celebrity and media personalities lamented that Hinckley was a poor shot. They wished he had killed President Reagan. Fortunately, Reagan recovered fully and went on to become one of the most influential American Presidents. The pessimists were wrong about President Reagan, but they clung to their dismal outlook for stocks. Dow 1000 continued to be a ceiling in 1980 and 1981. The Dow stopped at exactly 1000 in 1980. In 1981 the Dow rose to 1024 before falling to 776.9 in mid-1982. As the Dow was falling in 1982, I noticed a surge in foreign buying of U.S. stocks. I wrote about that in my newsletter, adding that the odds on a Dow above 1000 had improved. My optimism was greeted with skepticism. But that surge in foreign buying turned out to be a turning point for the Dow. By year end 1982 the Dow was over 1000 and on its way to its next peak at 1287.

Ronald Reagan broke the back of the prevailing popular pessimism. Not that the pessimists have given up. As we can see from the enormous amount of cash on the sidelines today, many investors are just as afraid as those of the 1970s. The reasons have changed. Fear of an oil shortage has been replaced by concerns about too much carbon in the earth's atmosphere. I regard that as a healthy change. It is far better to be dealing with the consequences of an oil glut than an energy shortfall that would have pushed the

global economy into a depression. Fear of never ending, destructive inflation and high interest rates has been replaced by fear that persistent slow growth and low interest rates will leave the economy on the cusp of recession for a long time.

And the Trump election has triggered the same hate and fearful emotions as we saw after the election of Ronald Reagan. Will Trump be as successful as Reagan? At least he will be far more business friendly than his predecessor. Odds on a Dow well above 20000 before he leaves office have improved.

I will have the next market review and update for you one week from today on Wednesday December 7, 2016.

All the best,

John Dessauer

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