Another Morgan swindle on Wall Street

As in 1907 and 1929: Morgan's run-up of stock prices is the year's biggest swindle for suckers.

Morgan Guaranty Trust, whose $16 billion of equity under management doubles the portfolio of its nearest rival, initiated the institutional portfolio-churning which ran the Dow-Jones industrial average up 235 points since Aug. 12, in a fair repetition of the 1893, 1907, and 1929 Morgan market swindles.

As the chief economist for one top Wall Street institution explains, Morgan brought its foreign clients—it is the largest manager for old European *fondi*—into U.S. stocks and bonds in June, permitting them to pick up the benefits of a 15 percent appreciation of the U.S. dollar plus a 15 to 40 percent appreciation of U.S. stocks and bonds. Including yield from investments, this economist estimates that Morgan's foreign portfolios made a 50 percent return on investments between June and October.

However, on what basis did the Morgan trust managers bull the market—forcing coverage of short positions and a resultant "buying panic"—and justify it to their client?

"We are looking for a new type of recovery," said a senior Morgan Trust investment officer, "a deflationary recovery. We are advising people to get into stocks because interest-rate returns on Treasury bills, land, commodities, and so forth will all be down in the deflation. For the same reason, heavy industry will be down, too. The best bets are the consumer and information industries." Morgan's economic projections assume there will be no economic growth until the end of 1984, with unemployment between 10 and 11 percent. Corporate profits, under this dismal outlook, will rise by no more than 10 to 15 percent from their present level, about 40 percent below last year's. The argument boils down to a contention that since deflation is wiping out other investments, one might as well speculate in stocks.

The market boom shows brokerage stocks up 71 percent, saving and loans up 49 percent, commercial homebuilders up 45 percent, retail chains up 38 percent, electronics up 37 percent, office equipment up 29 percent, textiles up 37 percent, and autos up 23 percent. The idea is that these industries are so depressed already that they can only rise. Heavy equipment industries barely moved from the bottom, e.g. steel up by 0.5 percent, construction machinery up 1 percent, agricultural machinery up 7 percent, and so forth, under the assumption that the "deflationary recovery" will take place in the absence of capital investment. The marginal profits are supposed to erupt from small increases in utilization of existing capacity.

This argument is not new; a handful of sharpie foreign money-managers were retailing it in May, when the foreign portfolios made their move. It is also completely insane, for a number of reasons, even if it covered for a neat short-term maneuver.

First, the big unwinding of the technetronic sector began this year, starting with the collapse of the commercial building boom, which will rapidly knock out the overbuilt and over-promoted office equipment industry.

Secondly, the resulting layoffs in the white-collar sector (of which there have been 200,000 net since May, the first in the whole decline since October 1979), will keep personal income low, and consumer industries and retailers flattened.

Thirdly, since stock dividends have risen from 35 percent to 70 percent of retained earnings in the last three years, as corporations seek to inflate their stock prices, more pressure on corporate balance sheets may well start a holocaust for dividends.

Finally, a collapse of capital spending, i.e. more resultant unemployment in the industrial sector, will push the first three problems along in a very nasty way. All this assumes the "optimistic" case that the financial system does not dissolve in a global chain-reaction.

The Dow-Jones *should* be below 600 from the standpoint of real economics. That it has behaved differently should be no surprise. When a handful of institutions who shill for the European *fondi*, led by the House of Morgan, can persuade investors to learn Newspeak ("deflationary recovery"), anything is possible.

How long can the idiocy last? Until Morgan pulls the plug on it, or, as they said in 1907, "shakes the tree" to catch what may fall out; or until the fourth-quarter profit disaster is reported 14 weeks from now; or until the Mexicans and others tell their bankers to take their bat and go home.

One German private banker, whose family were financiers to the House of Hohenzollern for two centuries, commented, "There's nothing wrong with a crash. There have been 2,000 crashes in world history. All it means is a change in ownership."