

CHAPTER XXXVIII

THE NEILL THEORY OF CONTRARY OPINION

By: James L. Fraser

It Pays To Be Contrary

Stimulated some years ago by the reference in "Life,"¹ there has been a steadily growing and serious interest in the Neill Theory of Contrary Opinion. Today any cursory reading of business and financial news will bring Contrary Opinion within your view. The "contrary" approach has been so well accepted - and so loosely used - that many readers legitimately wonder what the Neill Theory really is.

So, first things first. Besides increasing mention in the press, magazines, and privately circulated investment services - there is no extensive literature on the subject.² A Contrarian has no manuals to study, charts and indexes to look at, or easy rules to memorize. Neill Theory requires self-thinking. The problem is first one of learning to think; then one of thinking contrarily. You cannot hope for pat solutions to specific problems. So, what can you hope for?

For over 30 years Humphrey B. Neill has been hammering away at the idea that the opposite, or contrary approach to questions and problems is a logical method of thinking. It is logical because (a) people as a rule think very little. They are happy with distilled pap and do not look at the contrary side of public questions and problems of business and finance. (b) Majority opinion is so frequently wrong. Obvious thinking usually leads to wrong judgments and wrong conclusions. Or as we like to say: When everybody thinks alike, everyone is likely to be wrong. (c) Contrarily looking at both sides of all questions, instead of staring at the fad of the moment, leads to sounder and more profitable conclusions.

Now why is this so?

Because Neill Theory is based upon "laws" of sociology and psychology, among which these are logically related: (1) A "crowd" yields to instincts which an

¹ "Life," March 21, 1949, wherein appeared comment that Humphrey B. Neill "formulated the Theory of Contrary Opinion," following which quotations from a 1947 contrary opinion were given. See "The Strange State of the Market," by William Miller.

² Except for a longer treatise by H. B. Neill, "The Art of Contrary Thinking" (Caldwell, Idaho: Caxton, 1963). This and other recommended books are available from the Contrary Opinion Library, Wells, Vt. 05774

individual acting alone suppresses. (2) "Herd" characteristics make people follow group impulses instinctively. (3) Emotional motivation makes people in a crowd more susceptible to hope, fear, and greed. (4) Obsessions of the herd are substituted for sane, individual reflection.

That is all very well, you say, but how does one use The Neill Theory of Contrary Opinion?

First, one has to use his noodle. This does not require great mental effort; only a few moments a day of concentrated thinking - to the best of one's ability. Let us imagine you have before you the popular opinion of the day or the common investment viewpoint. You ruminate over it, around it, and under it saying all the time: "This generally accepted opinion that is strongly in favor may be wrong in itself, may be based on false assumptions, or may not be even thought out to a logical conclusion. What are contrary views?"

Then notice how clearer things appear - and in proper perspective. Maybe some examples will help.

Recall the autumn of 1961. Everyone was talking shelters. War jitters were everywhere. Berlin was the "crowd" crisis of the moment - and with no solution. (Under crowd conditions immediate crises always demand immediate solutions.) Fall-out shelters were the fad even here in Vermont. Newspapers, magazines, and television stressed nuclear survival.

So what happened? Nothing! With our eyes glued to Europe as the spot light shone on Berlin, we became subject to hypnotic order. Even the hypnotists were under their own state of fascination. But Southeast Asia did explode into a hot war. We were deceived with words and the Communists once again made gains at our expense.

This is a good place to say that it is of major importance in using Neill Theory to be contrary to words and opinions: not to facts. It is words that mislead, distort, and delude. To paraphrase Gustave Le Bon, one of the great writers on the crowd mind,³ we see how words are used as a mechanism of persuasion. The four requisites are:

affirmation - affirm the word as truth
repetition - repeat over and over
contagion - finally it "catches"
prestige - and imitation results

Contrary Thinking cannot advise you - can only suggest contrary trends.

As another example in contrariness think back to the Suez crisis of 1956. British and French pilots walked off the job and canal approaches were jammed by hulks sunk during the brief war. World tramp ship rates and world tanker vessel rates reached their highest postwar levels with the latter over 400% of the year before rate. Nobody believed Egypt could keep the Suez Canal going - and least of all

³ His classic of crowd behavior "The Crowd; A Study of the Popular Mind" appeared in an English translation in 1896 and has been reprinted many times since. (New York: Viking, 1960.) His equally rewarding, and up to now far scarcer classic, "The Psychology of Socialism" (Wells, Vermont 05774; Fraser, 1965) is also highly recommended.

pay off shareholders of the Suez Canal Company.

To the contrary, President Nasser paid off the final installment due the shareholders on New Year's Day 1963, one year ahead of time. Revenues rose from \$103 million in 1955 to \$146 million in 1961. Tonnage handled increases yearly, improvements are constantly taking place, and the Canal is a thriving operation.

Predictions And Forecasting

Under Neill Theory forecasting is unnecessary and unwise. Trying to predict the unpredictable is the cause of countless losses. To be a successful contrarian one must have the intellectual courage to stand alone - to take positions opposite the Crowd.

Contrarians observe the psychological status of the Crowd and then take an opposite approach. We base our Theory on estimating the prevailing Crowd emotion and thus we may avoid forecasting. Make no attempt to predict the future and you keep an open mind. A definite forecast leaves one at the mercy of pride-of-opinion and in all likelihood one will succumb to the will of the majority.

Examples of Governmental economic crystal gazing that turned out badly are numerous. One was a press conference remark by Henry Morgenthau, Jr., Secretary of the Treasury, in late March 1938 that our nation was really in a business recession. That moment marked the recession's bottom.

Another was the official prediction after World War II was over that there would be 8 million unemployed in the spring of 1946. Actual 1946 unemployment averaged less than one-third the estimate.

Political miscalculations are legion. Tito's 1962 Moscow trip, demonstrating his "in" with Russian Communism, reminds us of his dramatic break from Moscow in 1948. Our official estimate of his survival as a heretic was a maximum of eight weeks.

Don't think only the Government makes mistakes. Yale University economist Arthur M. Okun made a detailed study of 8 forecasts in 1955, nine in 1956, and 11 in 1957. These forecasts were made by a group of New York economists - and had a high degree of error. If these private forecasts were used, Government officials would have compounded their own mistakes with the mistakes of others.

Testimony in May, 1958, before the Congressional Joint Economic Committee, for the purpose of backing a tax cut to ease the recession, showed most witnesses felt the bottom of the recession was many weeks or months in the future. Some believed a serious depression had begun. Actually recovery had been under way for several weeks.

We are creatures of habit and prone to recession or prosperity mentality. Once forecasters congregate on one track, their pronouncements tend to reinforce one-mindedness though business conditions may have changed. Economists' words and economic actions are not the same.

Why do forecasts go haywire? Because if you believe the predictions, you

act against them to shield yourself. Various theories come into favor at different times. Today the "indicator" approach seems prominent. And the more prominence this or any theory receives, the less likely will it work.

The irony is that widely followed forecasts bring about their own demise. In December of 1959 and in January 1960 more wasted words were thrown at us about how "the sixties would start to soar," that it was soon obvious the sixties would not "take-off." Words did not fit reality. But it took some time for the unanimity of predictions to be wrong - to the Crowd. Look at the June 1965 decline where the consensus indicator approach said nothing at least until all scared investors had sold out.

A few guidelines to the "uncertain art" of economic prophecy follow. First, such forecasting literature, both on the economy and the stock market, distills what others say. It is better to be wrong in good company than to be right by oneself. Second, forecasting techniques are fallible. They are subject to human error, both at the forecaster's end and at the statistical end. Business is people. To forecast business you must predict human beings. But our behavior patterns are always flowing, and emotions often make for strange statistical measurements. Third, the future is not always a continuation of the past. Be skeptical of past trends being stretched far beyond the present. The elastic may break or snap back when least expected.

An ability to sense what is going on in the economy is more useful than an ability to organize facts. Indicators do not substitute for judgment.

Forecasting The Market

As far as the stock market is concerned, following the Crowd is an invitation to disaster. When group opinion is strong in one direction, as the new issue mania of 1961, then watch your step. Symbol playing in Wall Street leads to trouble. The antidote is contrary reflection. The unseasoned stocks of the "smart money" boys collapsed as public support is no support when distribution sets in and when the "fear" emotion takes over.

To illustrate further, let me give you the result of a Securities and Exchange Commission survey that studied what "market experts" were saying to their customers and clients the week preceeding the September, 1946, crash.⁴ Only 4.1% of the professional advice from broker-dealers and advisers was correctly bearish. This may be regarded as a normal expectation rather than as unusual - especially if you are aware of group-opinion ideas. The above 1946 consensus is valuable as an example that public opinion is more than the people hanging around brokerage offices. Here is an analysis of opinions "to be contrary to."

In the stock market it is not enough to be contrary, you must be intelligently contrary. One can't afford to jump to conclusions but must look at the whole picture. A contrarian can clarify thought but he leaves advice-rendering to others. Once your own thinking process is clear, recommendations fall into place. But don't force them. Think first. Don't expect the market to conform to your own pre-conceived opinions. It won't. Flexibility plus thought plus work equals a chance for success. Rigidity of mind means failure.

If you guess that a certain stock will go up, back your hunch with cash, tell your friends about it, and expertise on it - you suddenly find yourself the victim of

⁴Statistics taken from the chapter on Theory of Contrary Opinion of Garfield Drew's book "New Methods for Profit in the Stock Market." (Now out-of-print)

pride-of-opinion. Perhaps the stock does well and you pat yourself on the back, have a drink with the boys, and begin to sense that you really are a bit better qualified than the ordinary investor in deciding the hows, whys, and whens of the market. You are tempted to feel more right next time until sooner or later your vanity comes up against reality. By then you have lost the contrary habit, for who needs it when success beckons.

When reality intrudes - and it always will - suppose your stock turns down. You must use all the semantics at your disposal to defend your choice. And Contrary Opinion is part of the arsenal - but not when it is used to back your own emotional position. Then you are not being contrary at all, only stubborn and inflexible. A true Contrarian is a flexible mind-changer, not bound by dogma.

When an investor looks at the market he is interested in majority thought. Why? Because as Fred C. Kelly puts it: "...there is one fairly safe guide to prudent procedure - to do exactly the opposite from what the majority of other people are doing. If one would win he must be contrary."⁵ One can visit board rooms, read the financial press, check odd lots, free credit balances, monetary indexes, short interest figures, and other useful tools to obtain an idea what the public is doing. But one indicator by itself can fail and dependence upon mechanistic methods of forecasting leaves out the psychological factors.

The December 28, 1962 issue of Time Magazine reported Psychoanalyst Henry Krystal of Michigan's Wayne State University as saying that booms and busts are not born in economic indicators but in the "unconscious minds of mortal men." Market up and downs may appear to have financial reasons but "these realities came into play only in a way dictated by the emotional needs of investors."⁶

Professor Everett Hagen of M. I. T.'s Center for International Studies reiterates this simple truism - that economic and stock cycles cannot be fully understood without psychological knowledge.⁷ Study the man in action and then plot your moves. A behavioral scientist may be a better technician than a chartist.

One's reliance on charts is limited. "Everyone" is becoming chart conscious - in one way or another - so beware. They demand definite answers and read into charts and graphs findings that are not there. They want immediate interpretations and are liable to err in drawing too hasty conclusions.

In the third week of October 1962 pessimism and discouragement abounded. Technical indicators looked sick. In sum, bearishness and apprehension - concerning both business and the stock market - were about as universal as they ever

⁵From Kelly's book "Why You Win or Lose" (Wells, Vermont 05774 Fraser, 1962). An excellent, easy to read study on the average person's behavior when buying and selling stocks.

⁶This is why The Neill Letter of Contrary Opinion, the only regularly published financial letter based on Crowd Psychology, is useful to serious investors.

⁷In his book "On the Theory of Social Change" (Homewood, Illinois 60430; Dorsey, 1962) Hagen concludes "...that economic theory has little to offer toward an explanation of economic growth, and that broader social and psychological considerations are pertinent."

get; so the time had come to think constructively. The contrary view was certain - be optimistic. Any further deterioration of the Cuban crisis at that time, remember, would only add to the pessimism, not detract from the contrary view.

Again, what happened? A recovery took place that was ridiculous, at the time, to anticipate. A contrarian would not have dismissed the thought of improvement - as history tells us in plain language that the unexpected is the action to expect. If one concentrates time and energy into thinking all around the prevailing view - you will not be at a loss when change takes place. Energize your thinking kit from past experience, don't be blinded by it.

Object, Purpose, Method, Premise

Let us review a bit and put more pieces together. The object of contrary thinking is to challenge generally accepted viewpoints on the prevailing trends in politics, socio-economics, business, and the stock market. Opinions react sharply as people's emotions - their hopes, fears, and passions - sway back and forth.

The contrarian's purpose is to contest the Popular View because this view is usually untimely, misled by propaganda, or plain wrong.

The method is to compel thinking and observation in place of conclusion-hopping and snap-guessing. "Think prodding" or the necessary concentrated reflection takes practice.

The premise is that alternative ideas make for a clearer, better defined judgment. Taking a contrary position frequently will suggest what is NOT coming next. When thinking through opposites, one is led to sound thoughts as to what might come next.

Is the public always wrong? Is the Crowd never correct? After all, we all live in the most enlightened democracy of contemporary times, and individuals - acting in mass - pull the voting levers.

For a correct answer we must rephrase the question. Is the public wrong all the time? No. The public is probably right more of the time than not. But the public is right only during the trends and wrong at both ends - usually wrong when it pays to be contrary.

To illustrate, the Gallup Poll reported that at the end of World War II, only 5% of Americans named keeping the peace as the biggest post-war problem the United States would have to face, while 71% of those interviewed named some problems allied to financial security. This was a natural response, following years of fighting and with official indications of high initial post-war unemployment. Obviously, since the war, the big problem has been keeping the peace.

On a more philosophical basis, immediately upon hearing the news of the atomic bomb over Hiroshima, Gallup reported 85% of Americans approved the event. This early public acceptance was the result of mass media acting on behalf of the government, with the only thought being to end the war as soon as possible. Now we see much more was involved.

The Korean War came upon us with as much surprise as Pearl Harbor. We were waiting to fight Russians in Europe. We had no public conception of fighting in the Far East - and yet we did. Public opinion, even after Korea, became more convinced that the real showdown would be in Europe. And where has the real trouble been? Everywhere but Europe.

Additional Features

A tough nut to crack is the proper recognition of world problems. Why this is important is as opinions become "frozen in" then financial programs will be out of gear. Our pocketbooks demand that we are aware of questions of importance. And the Contrarian must bring out all possible angles - not just the headline story of the day.

How much attention has been given the surface indications of world opinion? The Christian Science Monitor stated in January 1963 that "of one billion people in Asia, excluding Communist China, only 46 million take a daily newspaper, and of these, 36 million are in Japan." India has an estimated 100 million literates with a daily newspaper circulation of only 4 million. There is hardly any private African press on the entire African Continent. So when we are told of comprehensive world opinion, let us think contrarily about it. There isn't any - yet.

The average man has little interest in Big Events. There is usually public apathy and lack of interest. One reason why conclusion-jumping is so popular when trends change is the lack of careful thinking prior to the headlines. Even the Washington Press Corps has been characterized as running like a herd - only concentrating on the story of the day.

A supreme example of "distraction reporting" came in the June 1961 Vienna meeting of Khrushchev and Kennedy. No "hard news" was expected and yet over 1000 reporters with photographers were present - under compulsion of getting out a daily story. Small wonder the non-contrarian was let down.

General de Gaulle of France has upset the Common Market and Americans. Now we are struggling to catch up with what went wrong. Snap-guessing takes over. In 1958-1959 American businessmen blandly accepted de Gaulle since (1) he was anti-Communist and necessary for overseas investment security, (2) the French needed a strong man at the top to stem chaos. These premises were never doubted or looked over again, as a good contrarian should. Now in 1965 we all have to sit up and rethink out the problem. That is not easy as we made no allowances for the unforeseen - which usually happens.

Let us not forget how the Common Market was established. The motivation was Khrushchev and the cold war. This bulwark was forged through fear. In this case fear= unity.

Look at some of what I like to call the Contrary Cliches of our times. For some years we have realized that Western Colonialism, as known in the history books, is through. But unfortunately the ex-colonials don't believe us. We forget that many leaders of emerging nations spent their formative years during the 1920's

and 1930's on the Continent, specifically in France and England. During this period European economies were stagnant and socialism or fascism was respected. Even today capital investment by private enterprise is looked upon as economic colonialism. Thinking around the problem will bring out other salient points.

We believe the Communist thrust for world power is a threat to world peace. Up to now few "developing" nations have really cared. When an Asian or African goes to Moscow or New York he is struck less by the spiritual and political contrast between freedom and the lack of freedom than by the economic contrast between his own poor nation and the white man. These poor nationalists consider it natural to exploit the antagonism between the two world powers. It has been precisely because the Soviets and Americans appeared as two peas from the same rich pod that Red China's propaganda is making headway in Africa, Latin America, and Southeast Asia.

We live in a unique age. Simple demographic facts and forces may be the controlling influence. We have to adjust to a world in which the white race is losing its position of leadership. Centuries of dominance are being wiped out in a few brief years. How are your investments to be affected? Who says so? Why? When? Where? Learn to use these 5 "serving men" and you in turn, will be well served. Contrary analysis is the beginning and the end.

Serendipity

Have you ever thought about the secret of the creative impulse. You may be familiar with the answer Sir Isaac Newton gave when asked how he went about his discoveries. It was: "By always thinking into them." Albert von Szent-Gyorgyi, the Hungarian born Nobel prize winning (1937) biologist who now works at Woods Hole recently wrote in the New York Times that he rarely found the answer to any of his problems by conscious thinking. Conscious thinking only acts as a primer. He thinks about his problems all the time, and his brain continues to think, even when he sleeps, for he sometimes wakes up at night with answers to questions. Szent-Gyorgyi finds himself impatient with problems until they disappear. And this kind of concentrated attention, on a conscious and unconscious level, is useful for contrarians as well as scientists.

Webster defines serendipity as: "The gift of finding valuable or agreeable things not sought for; - a word coined by Walpole, in allusion to a tale, The Three Princes of Serendip, who in their travels were always discovering, by chance or by sagacity, things they did not seek." Therefore the accidental discovery of something useful while in the process of looking for something quite different.

The application of this to Neill Theory is natural. We have all had the experience many times, when thinking opposite thoughts, of turning up profitable ideas we never knew existed. Or after much unconscious concentration and devotion, all the pieces of a puzzle may fall in place. No amount of money or excellent research facilities can create an original scientist. You either are a thinker with sensitivity and a brain that even wakes you at night with a long sought for solution - or you are not. And most of us are not.

When you come down to it serendipity and Contrary Opinion go together. Humphrey Neill learned early that individual opinions (his own as well as the next man's) were of little value - because so frequently wrong. The disappointments and disillusionment that came to everyone who tries "to beat the market" resulted in the Neill Theory of Contrary Opinion. It is far easier to be contrary to general opinions than to create original thought. In our theory, serendipity works because you hit upon useful thoughts and ideas when studying an entirely different problem. The Contrarian "brainstorms" within his own thinking process and the chain reaction leads to profitable conclusions.

Some skeptics might say that as we are in a new era - for the first time in History possessing the means never to slave again - that the Crowd will diminish until we have little to be contrary to. Modern man has confidence in his own power to shape and transform the physical world in accord with his own concepts. Keen thinking, sharpened by computers, should keep the public under control. And all the time, public education is improving. But a world of cybernetics is no solution.

There will always be crowd psychology to deal with. Instantaneous answers mean crowd reactions occur faster also. Rapid communication with accelerated computations means opinions shift fast. If anything we will pounce on new fads with greater speed. Speed and conformity go hand in hand. A contrary approach becomes more valuable - not less. It is our safety valve - as witness the following.

The November 24, 1962, "Business Week" discussed Red China's "leap" toward science with the biggest handicap being "government's demands for impossible fast research results." Non-scientists are in charge, and want results on a faster schedule.

In spite of this the "Chinese have put together a scientific plant that could provide the shell for real progress." The research and development budget climbed from \$408,000 in 1950 to \$441.2 million in 1960. . . with theoretical and experimental nuclear physics getting most of the money.

Soviet scientists are on record that it will take another 10 years for practical nuclear bomb production. Why? Shortage of trained people and an inadequate industry (needed for making enriched uranium) seem to be the main reasons.

Just the same few Britains or Americans were surprised at an early bomb explosion. Northwest provinces had already been evacuated for testing. And finally, the most significant nuclear event of the year took place in Sinkiang Province on October 16, 1964 as the Chinese set off an explosive device.

A British scientific delegation that recently visited China claims Chinese progress in electronics and metallurgy. To illustrate: American, Russian, East Germany, Danish and British lab equipment were being used. A contrary view is that the military hordes of Peiping may not be the major source of worry for us in the West. There is a lot more to this "paper tiger."

Open Door-Open Mind

Use an "open door" policy on your own thinking process. How often are you in a position where you jump to conclusions only to find misunderstanding? Frequently evidence seems to point to a definite course of action, but without cooperative investigation, conclusion jumping becomes dangerous. By keeping the door open, opportunity is given for something to come through. But if the door is closed tight, nothing comes through unless the door is broken down in anger.

Always begin with fundamentals. Take Mainland China as an example. Here live about 716 million people existing on around 260 million acres of arable land. Drought, floods, diseases, insect pests, and mismanagement affected more than 148 million acres in the four successive years, 1959-62. The United States has a minimum of 392 million arable acres for a population of 192 million. In other words, we have at least 50% more cultivatable land with less than 1/3 of China's population. China has less than .4 of an acre of arable land per person while we have 2 acres of arable land per person. Under normal conditions, Burma, Thailand, South Vietnam, and Cambodia are rice surplus producers to the extent of about 6 million tons. In 1963 China's rice import requirement was 6 million tons.

Besides quantitative differences we produce over 31 million tons of fertilizer annually while China turns out 7 million tons. Qualitative factors only accentuate the basic differences. By the 1950's China was left with 1/10 of her area forested, the result of thousands of years of chopping down trees for crop room, fuel and timber. Hopefully, the beginning of 1970 should see a forest-land ratio more in line with us where 1/4 of our land area is capable of producing timber for commercial use.

But then we are fortunate. We have been cutting trees for only 200 years.

Dandridge M. Cole of General Electric in a fascinating article entitled "Space Advances in the Next Fifty Years" in the June, 1964 Spaceworld reminds us that "The world's supply of technical knowledge is doubling every 7 years". He then poses our major problem as the "elimination of war between major technological powers." Two charts indicate that over 40% of the world's population will die by warfare in the years of 2000-2050. At that the estimate is shown to be conservative. The conclusion is simple. A revolutionary change will take place or there will no longer be a human race. The nature of the change is not clear. A break-through is predicted, but no one way is the definite solution.

A break-through in solving China's food problem also will take place, but its manner is not now clear. To me the two problems are related. China's needs create a desire for arable land which, in turn, causes the war problem to magnify itself.

The space scientist may solve terrestrial problems by serendipity - using space solutions in another direction. A recent Harvard Business Review article, "Space Technology - Pay-Off From Spin-Off" by Welles and Waterman claim 126

specific cases of past spin-off results. Semiconductors and plasma-jet are listed benefits. But the authors insist that intangible spin-offs, the transfers of technological information and nothing more, are far more important. I agree.

Climate of Enormity

Facts may be reported but not understood. For example, it is only since World War II that the colleges and universities are filled with students who came, not from farms and homes, but from suburbs and apartments. These students represent a totally different environment from the local economic units of the past.

We have a portrait of a mobile nation, of America on the go, so busy moving and adjusting that there is not time left for serious thought. Interdependence is the rule with industrialization, technology, human crowding, and mass media causing many activities once considered private to be involved in national issues. The result of a national and worldwide abstract economy is homogenized uniformity.

A different economic climate requires new solutions. Preconceived opinions are of little use - and besides, they cost too much.

Brigadier General Otto J. Glasser, vice-commander of the Electronic Systems Division, U. S. A. F., says that "we have to expect a decade of change every few years."

Brig. Gen. Washington Platt, in his book "Strategic Intelligence Production,"⁸ says: "Few people fully appreciate the acceleration of the rate of change which has become normal in the present as compared with the past." As an example we now spend about 20 billion dollars annually on research and development. By 1970 this will be over 42 billion dollars.

The Aerospace Industries Association predicts that within 10 years electronic systems reliability will improve 100 times and the capacity of ground based data processing equipment will increase 1000 times. Use of molecular circuits will allow a reduction in components to 1/100 of their present size. Missile launching count-down procedures will become automatic. The advent of the latter, now just getting into the popular press, will lead to entirely new ideas.

All this goes back to education. Professor Mickley of M. I. T. when recently interviewed said: ". . . it is trite but basically true, that what teaching should do is to teach a student how to do things for himself. . . . If, in college, an individual does nothing more than to discover how to learn, and how to use knowledge, then the primary purpose of university education has been achieved." So true for contrary thinking. And to top it off Professor H. F. Harding of Ohio State University has written to us that "The odds are always good that the exceptional man is well ahead of the crowd. When they catch up he is off in another direction."

At times too few of us catch up and almost no one "is off in another direction."

⁸ New York: Praeger, 1957

H. A. DeWeerd in an excellent article entitled "Strategic Surprise in the Korean War" from the Fall 1962 issue of Orbis (the quarterly journal of world affairs published by the Foreign Policy Research Institute, University of Pa.) reminds us that we are always victims of our own propaganda. "It was not the absence of intelligence which led us into trouble but our unwillingness to draw unpleasant conclusions from it. We refused to believe what our intelligence told us was in fact happening because it was at variance with the prevailing climate of opinion in Washington and Tokyo."

DeWeerd then says that we refuse to believe what we don't want to hear because "we should have to do something about it."⁹

Indications of North Korean capability and intention were numerous but confusing. In the months before the real invasion North Korean forces crossed the Parallel every Sunday and returned, explaining their violation as "maneuvers." Predictions of invasion increased until it took the character of the boy who "cried wolf." When finally North Koreans did not return from a weekend excursion, we were ill prepared.

The political-military climate of opinion prevailing in 1950 indicated Europe was the most likely battlefield for war. We were psychologically ready to fight Russia - and even after Korea we became more convinced that the real battle would be in Europe. Wishes became thoughts.

Look at Cuba. We dreamed that missiles would never be placed there. Look at India. She lived the dream that war with China would never happen. And the novel "Fail-Safe"¹⁰ dispels the dream that nuclear war by accident is impossible.

Neill Theory would have been useful once again. We have to doubt all propaganda before we believe it. One has to apply contrary thinking to any prevailing climate of opinion in order to be on sound ground. Otherwise mass misconceptions will lead to many more socio-political popular delusions.

David Rockefeller, President of the Chase Manhattan Bank recently told the American Philosophical Society that business men need to communicate more effectively with other groups - namely our opposite numbers in labor and government. He said "Often each group is unaware that it is on a closed circuit hookup, exchanging the same interpretations, the same opinions, the same viewpoints."

Isn't this what we do at the office, or at home? We stick to sameness of friends, ideas, and actions. What we need is a revolution in thought - more exchanges with those who disagree.

⁹ Vice-Admiral Rickover, father of our nuclear submarines once said: "We persist in our illusions because as everyone else, we dislike having to rethink matters which we believe to have already been settled once and for all."

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New York: McGraw-Hill, 1962

For those of you who think you have a tough time being contrary in the old United States, look what a Japanese contrarian must fight. I spent a year in Japan during 1954-1955, working for Uncle Sam, and getting around to see Japanese industry on the mend. The mending was then in doubt. Note the boom that developed.

Amazing to us is the phenomenal growth of shareholders in Japan - where there were few before 1950. Share ownership, as a percentage of the population, is now second to the United States.

Mr. Terumasa Hasebe, Managing Director of Nikko Securities (a MLPF&S type operation) explained Japanese methods during a 1962 talk in Boston.

For Television Nikko has "Economic Class For Housewives" on Monday mornings; "Information on This and That" on Wednesdays; and twice daily telecasts live from the main Customer's Room that cover 40 minutes of the morning opening and 45 minutes of the afternoon closing - a "Today" show with ticker tape.

Nikko publishes the "Investment Monthly," a monthly magazine "Money Building Age," a quarterly newspaper "Money Building Press," and a semi-annual business report. To further stimulate investor appetite "Public Relations Centers," which are small public libraries, give free information. The downtown Tokyo center is open from 12:00-6:00 and averages 1300 visitors daily.

Free correspondence courses have enrolled over 100,000. A Mail Order Department opened in March 1962 to supplement 112 branch offices. The offices are in railroad and subway stations, department stores, shopping and amusement centers.

All this in order to bring the customer to the point-of-sale. Small wonder the Japanese market had been so springy. And, perhaps, small wonder that it declined so rapidly in 1963 with the small investor being as easily burned on the way down as he was won on the way up. And, less wonder that the Japanese market is now at a 5 year low with major securities houses being supported by the government.

Dispassionate Debates

President John F. Kennedy said this at Yale in June of 1962: "What is at stake in our economic decisions today is not some grand warfare of rival ideologies which will sweep the country with passion but the practical management of a modern economy. What we need are not labels and cliches but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead."

Dispassionate readers, writers, and thinkers are required - and our problems have no easy solutions. Flexible contrariness can accomplish more than empty talk. We must have the courage to interrupt idle chatter. The readjustment and re-education needed today, especially in serious thinking, is indeed great. As Ritchie Calder says, after discussing the fall of Mesopotamia: "The profound lesson of all this is that when you start interfering with natural systems you must maintain your artificial systems." 11

Our ingenuity must realize that though the structures, forms, problems and even opportunities are different today - great follies can still take place.

11 "After the Seventh Day" (New York: Simon & Schuster, 1961)

To illustrate, Management policies today require monetary understanding. These three reform movements have advocates. 1) Dollar devaluation. 2) Dollar guarantees. 3) A supranational bank. Robert V. Roosa, recently our top money man, believes in an evolutionary policy and does not favor any of the above.

And yet we demand a solution, any solution, because we are used to the idea that all problems have solutions. Professor Henry DeWolf Smyth, U. S. Representative to the U. N. International Atomic Energy Agency, says that "Americans expect complete and absolute answers to questions that are still virtually unanswerable". But problems as full convertibility of foreign currencies and the persistent balance of payments pressure may be fought over for years to come. And the solutions may not be what is at first expected.

A present contrary view by Hal B. Lary, who has devoted his entire working life to the United States position in world trade, is that our payments gap is closing and that the Administration is on the right track with its policy for defending the dollar. He claims no strong measures are needed. The deficit in our payments gap will eventually be wiped out by the countermeasures already taken. In other words, time and patience will do the job for us - and the remedy has been under way for some time. The remedy is basically that we are becoming more competitive with other countries.

At the moment the Administration's voluntary credit control program is showing results. Banks have cut overseas loans and industrial concerns are holding down foreign investments. The interest charge on "Euro-Dollars" is now above 5% (3 month dollar deposit rate in London), suggesting that dollars are hard to find. Now, as the dollar becomes stronger (less available), other nations as France will find themselves in need of them. Gold purchases would stop and the pendulum could swing the other way.

The other side of the problem includes our trade surplus. American business and agriculture have expanded exports and these exports have financed our overseas investments. The United States and Canada are the only two "European" nations not fighting inflation due to labor shortages. If we hold down our prices, we benefit in world markets. Contrary to some popular myths, we are competitive. So much so, I feel, that there is a reaction in other industrial nations against our investment dominance.

Thus it is that an independent and united Europe is wanted. But to cut the U. S. down in size is to slow down, if not halt, international trade and prosperity. Then our productivity would be cut back, our know-how made less available, and our stock markets decline. The more value the world gives to gold, which has no use in itself, the more isolationist the world may become. As Peter Bernstein¹² so ably has said, time and time again, wealth is production. Insofar as circumstances do not cut production, downward economic pressures will not last.

Take the shift of our occupation structure as another example. The Christian Science Monitor's European Economic Correspondent recently wrote that "an entirely new problem of unemployment for which old remedies are largely irrelevant now confronts Britain." (And may I add the rest of the so-called industrial nations.)

¹² In "The Price of Prosperity" (New York: Doubleday, 1962) and "A Primer on Money, Banking, and Gold" (New York: Random House, 1965.) Both excellent for mind stimulation.

Industrial production in Britain grows 6% annually, incomes rise 4%, exports to Europe increase 20%, and productivity improves. At the same time Liverpool shows 7% unemployed, Northern Ireland up to 12% jobless, with Scotland, northeast England and part of Wales seriously affected.

As in the United States - for skilled men in new industries there are many jobs. For young people with technical training or higher education there is good demand. In our nation the chronic unemployed has risen from fewer than 500,000 in late 1953 to about 2 million at the beginning of 1960. In the spring of 1962 one of six unskilled workers was jobless. Detroit had over 10% of its labor force out of work while high skill jobs went begging.

Now this reflects insufficient investment in education and - as a contrary thought - a balance of payments deficit in each community concerned. International figures of payments must start at local levels.

In a lighter vein did you realize that enforced payment in cash of the British workman's wages only ended 1 March 1963. Cash payments had been obligatory since 1831, to protect workers from being paid in kind or being forced to buy in company stores. The "payroll" gangs will now join the hard core of professionally unemployed.

Signs Of Things To Come

On a nationally televised Press Conference in November, 1962, President Kennedy was asked, as the last question, what he thought some of the ultimate possibilities in this climactic period were. He declined to sketch ultimate possibilities saying that if five years ago we had looked at the World, we would not have thought it would have moved quite the way it has.

A good object lesson was when the Berlin Wall went up in August, 1961. In all the preparatory planning among Western Powers for a Berlin crisis, there was no expectation of a wall being quickly and forcibly erected that would close the border. In fact, every other possible contingency was provided for. But we were so taken a-back, that action which might have resolved the crisis differently was never taken.

August 1961 saw a major forecasting defeat in the geopolitical arena. Leo Cherne, Executive Director of the Research Institute of America, put it this way: "I think it an unhappy fact that in the contingency planning for crisis which was involved in the preparation among the foreign ministers and the technicians facing the Berlin crisis that there was no expectation that a wall would be erected which would divide the city in two." Every other contingency was provided for, but that did little good after the event. Nobody can foresee all possible courses of action. But neither should we be frozen by an unsuspected event into a state of inaction. A realization of this point will allow for more flexible maneuvering.

Though we cannot foresee, we can plan. Only on August 6, 1963, Congress was told by Joseph A. Campbell, Controller General of the Army (as reported in the New York Times) that during the Berlin Crisis a majority of needed vehicles of an important Strategic Army Corps unit were not ready for combat. Of the 31 M-48 tanks assigned to the unit, 40, or 78 per cent, were inoperative. Of 85 M-39

personnel carriers, 80, or 94 per cent, were out of commission. Of 257 M-38 truck or Jeep, 199, or 77 per cent were not usable. Altogether 91 per cent of all combat vehicles, including self-propelled artillery pieces, were out of commission.

Other signs of things to come are all around us. Professor John P. Lewis, a 1963 addition to the President's Council of Economic Advisers, has bold and specific ideas. He claims: 1) ". . . our present market system is already shot through with government influences." 2) We no longer live with the impersonal market mechanisms of text books as the "present system concentrates in relatively few private hands discretionary authority to make decisions of major economy-wide impact." In effect the key wielders of power are not responsible to the public.

His remedy is "Enactment of A Federal incorporation statute that would make procurement of a Federal charter mandatory for all nonfinancial corporations of a larger than given size." Additional government influences are, according to Lewis, easy monetary policies, stabilization of Federal purchasing and stockpiling, selective credit controls, variable depreciation allowances, and further budget deficits.

Readjustment and re-education is not a Federal problem alone. Ernest Dale, a management consultant, tore apart new management theories in a fall, 1962 "Atlantic Monthly" article. Dale claims that poorer performance comes about because: 1) The theories "have increased administrative costs" as managers surround themselves with "expensive experts and assistants." 2) "Another missing ingredient seems to be the instinct for the profitable course." The modern manager is so isolated that he is "incapable of sound judgment on such matters." Look at what happened to the Edsel. 3) "His distrust of innovation in procedures and practices." 4) The "emphasis on human relations has led to the exaltation of the smoothy and the distrust of intelligence."

In mass society we all strive to succeed as experts. There are always jobs available for skilled technicians, for those of us with concentrated knowledge in one field. Look at the want ads in your Sunday papers - openings for specialists, pages of them.

But how about the generalist in automation. Take the Foreign Service as an example. There is a need for specialists. But no narrow specialist could possibly be an acute observer of the ways of other countries, or communicate effectively with other Governments on complex political issues or give proper advice on such issues.

Every Foreign Service officer, in the course of his development, needs to acquire certain area or technical specialties, but by the time he reaches the senior grades he should have become a "generalist" - that is a seasoned man wise in his understanding of human society and its processes.

A contrarian realizes that inaccuracies take place - that there can be no all-perceiving group of men in the modern world. Guesses must still be made. There is too much expectation of unflinching precision, especially do we accept scientists as the Court of Last Resort. We expect laboratory miracles to somehow endow the scientific community with the unanimity and foresight that we, the poor public, lack. Alas some things science knows, and many things science guesses. "Science knows all" is the popular impression of the day - so be contrary and survive. Voltaire said: "It is only charlatans who are certain. Doubt is not a very agreeable state, but certainty is a ridiculous one."

Behavioral Rigidities

Awareness of serious problems eventually lead to solutions. Awareness only comes about by forcing questions of conventional wisdoms. The clues are all around to see, if you look. To illustrate, Sister Jaqueline Grennan, an outstanding educator, was recently quoted in Life saying: "Indoctrination is a mistake in the Church and a mistake in education". Any person or belief that subjects us to monolithic thinking, that robs us of the reality "That there is no such thing as being absolutely sure" is a mistake. In our work, the uses and application of Contrary Opinion are helpful because we say again and again in as many different ways as we can that we cannot be absolutely sure - in the stock market as well as in other endeavors.

Continually, we are forced to question defended positions, for the more we question, the more we can trust our own actions. Contrary thinking is both a safety valve and a guide to living in this period of transition. Those of you who have subscribed to our letters for some years, know what we mean.

Look at economics. Many students today fail to find in classes or books an adequate explanation of the world as it is. We think of economics as that social science which gives us fundamental principles governing the use of scarce resources. What happens when the job becomes one of allocating resources that are no longer scarce? We do have, or will shortly have, the technology and the methods that makes abundance the problem. Not for the masses of India or China, I agree, but for those of us who are temporarily ahead in development. In the long run we cannot exist permanently alongside starving masses and poverty elsewhere. This is why the "revolution of rising expectations" must be fed. Defense spending may stay fixed or go down, but welfare spending will go up, especially in a Great Society.

What we know and what we believe conditions our actions and our environment. The state of our own minds is what counts. For example, the consumer today has developed a psychological attitude toward purchasing goods which made possible, and is now dependent upon, the differences in goods caused by the "conditions surrounding their sale". Intangible elements become part of the "product differentiation". Business takes place more on what we think of an object and less on any real physical differences. It is the image that counts.

The concept of images extends to the stock market and all forms of human activity. IBM has an image, Red China has an image, Khrushchev had an image, and so do you and I have images. But our images of Red China differs from Mao's image. My portrait of IBM may well differ from your's. But as time moves on, we cannot afford the luxury of never redefining our mental representations of the world around us - be it IBM, or our obligation to underdeveloped lands.

We just are not independent anymore. Where in the stock market we felt we could always blame "they" for our losses, we now have to think of what goes on "out there" in the universe, regarding all of space collectively as "out there". As Fred Hoyle points out "we usually think of ourselves here on earth as a complete unit, unaffected by what is 'out there'". But we seem to be following an inevitable path towards an advanced culture, one that has been followed before by other planets in other solar systems.

13 October 1964,

We are just awakening to the immensity of our own thoughts. This creates our transitional phase into an advanced technology, a phase that will take decades to complete. As we become more sure of ourselves we will still have to think contrarily, to learn that we cannot ever be absolutely sure.

Enterprise Democracy

14

Sebastion de Grazia claims that true leisure is not, as we are prone to think "free time," but the creative inquiring activity of the mind. And where else but with a contrarian would this fit? As the work week diminishes and as time hangs heavy with us, what do we do about it? Nothing. We are not boiling over with criticism of ourselves as most of us are pretty well satisfied with our lives. So we end up thinking only about what mass media wishes to tell us. And even this becomes automatic response. There is no enterprise from within.

How do we hope to keep control over what one writer terms the "log-jam" of tomorrow's markets if we cannot even control today's "stagnant" markets? Experts say that 1970 will find us with \$25 billion worth of advertising. The consumer will have to assimilate all this expenditure with his same physical properties. The ingenuity of advertisers will put the common man at a worse disadvantage than he is today - unless he learns to be a nonconformist. G. B. Shaw wisely said: "You must always let yourself think about everything and you must think about everything as it is, not as it is talked about." That will be the test.

One of the great questions that an Enterprise Democracy has to face is the temptation to rank the importance of problems by the amount of attention people devote to them at the time. There are two times as many public relations men in Washington trying to manage the news in favor of their clients (not including the Federal Government) as there are independent reporters. Besides trying to obtain honest news these reporters, when conscientious, must also de-manage more "news releases." Even with the high tradition of public service of some of the better papers, this is an impossible job. Every man for himself, and one of the best ways to limber up your own defense is some contrary thinking.

Someone once said: "To understand people, one must know what they remember." Or, to put it plainly, we are influenced chiefly by our last experience. During booms we see only bullish arguments and during ill times we see only bearish arguments. In the late 1940's we were under the spell of deflation, in the 1950's inflation, and in the early 1960's of inertia - the failure of feeling our lack of momentum.

Intermediate turns in the economy and the stock market are always mislabeled. In early July of 1962 - largely due to the stock market crack that spring - forecasters for both Government and private business were certain a new recession in business was ahead. The timing varied but everyone agreed that a downturn would extend through the first half of 1963. Quite naturally the 1st half of 1963 brought new business highs and a stronger market - naturally to a contrarian, of course.

Delusions And Practical Investment Procedures

Webster defines investment as "The investing of money or capital in some species of property for income or profit." Now notice that the word permanent is left out. You can no longer put it away in the safe deposit box and forget it. Our fetish

14 Publisher and editor of "The American Behavioral Scientist," a monthly publication of rare intellect.

has been associating investments with booms and speculations with crashes. The machinery for investing or speculating in stocks has permeated every corner of this country. Institutional buyers of securities clothe themselves as the high priests of a scientific establishment. Only the imagination of the public is left unprotected to bend and lean with the winds of prevailing sentiment.

The protection of the individual investor is needed against a world of "experts" that bring ever-increasing pressures for group allegiance. And how does the individual investor protect himself from the waves of mass sentiment that periodically wash over him? No storm is the image of another. No safety valve will protect against all possible contingencies. Look at the panic of 1962 again - it never should have happened economically speaking, but it did. What protection was there then? What protection is there now? In brevity - think for yourself.

"The greatest majority are ruled entirely by their emotions and are, therefore, the natural prey of those who do think."¹⁵ Associated with this is the delusion that "playing the market" is easy (a boom time phenomenon) and that there are fixed rules of the game. Learn the rules and "go to it" appears to be the order of the day. This does not deny that there is a general philosophy that may lead to success in investments. But even when the principles are understood it is the nonconformist who will benefit.

Though we cannot foresee, predict, or prophesize, we still search for solutions. Contrary Thinking, used as an aid to identify and define a problem, is frequently far more difficult than coming up with a solution. People want solutions. But they do not want to "work-think" for them. The stock market appears a natural for solutions. But you cannot forecast the stock market accurately. Such seemingly easy success is not within most of us. When you believe yourself strong enough and clever enough to meet any danger, then will the danger overcome you. If, contrarily, you always question your position, seldom are you frightened by the unexpected.

Most of us should act as true investors - forgetting about market liquidity and the speedier ticker tape - and rely on our judgments of what an investment will bring us over longer periods of time than a trading cycle.

There are different approaches to the problem. The specific investment need of many Contary Opinion readers is to tailor a program around undervaluation. Undervaluation means you establish that the securities being purchased are worth more than they are selling. Characteristics and criteria are set up. The following fundamental guidelines may serve as a beginning:

1. Past records give a point of departure for C. O. analysis. Average earnings, dividends, asset values and their trends should be looked over. Tangible value is the secret, either in a "turn-around" situation or in a special asset stock.
2. New and revalent facts that expect to have an influence may be present. These facts should not yet be fully realized and appreciated by a majority of the financial community. When the majority knows, we should be looking elsewhere.

¹⁵ Robert L. Smitley's "Popular Financial Delusions" (Wells, Vermont 05774: Fraser, 1963) is most helpful as an aid in the recognition of illusions.

3. A lower speculative component is essential. The measurement and delimitation of securities into investment and speculative areas is desirable. The method is largely to ignore popular trends and to buy ex-public participation. Otherwise, you are trading.

4. After basic principles the distinction is still one of personal imagination and ingenuity. Confidence and market level factors influence price-earnings multiples. But a strict ladder analysis, where you try to "escalate" your choice over comparative choices, is not good practice.

5. Try to purchase under favorable conditions. A clear cut demonstration of superior attractiveness is still a subjective judgment. Facts and ideas favorable to purchase are remembered, while negative factors are forgotten. Usually you come to a decision, buy, and hope you have the experience and ability to admit errors as they show up and to correct them.

Our working premise is that sentiment makes markets, with perhaps over 50% of price movements being caused by investors' emotional traits. When all seems well, we concentrate on finding individual stocks that go up. As the majority of stocks still tend to trend together, our choices will usually follow the crowd. Even Benjamin Graham and David Dodd reflect the tempo of our times by saying "... that the market is a voting machine, whereon countless individuals register choices which are the product partly of reason and partly of emotion." ¹⁶

When a top is reached we are not very quick at unloading. We are equity conscious and we do not assume the necessary detachment that investment decisions require. We are captive shareholders, being often misled by the orthodox semantics of Wall Street.

The market is high and mass media makes us buyers. We feel confident. We spend money. We create an optimistic environment for ourselves, our economy, and, of course, our securities.

When stocks drop, we refuse to believe tape action. Indicators then start to instruct us. We follow them. They satisfy us for a while, until we are the slaves of mechanistic methods of forecasting. Independent reason is by-passed for group-think. We feel better suffering in conformity than rejoicing alone.

Balance Sheet Values

Fifty years ago the existing system of stock speculation depended largely upon asset values. Then the majority opinion of experts favored balance sheet analysis. And as the experts were of one opinion, they must be right and therefore that was what to believe. Little independent judgment was ever shown.

In olden days balance sheet figures were not reliable - and yet they were relied upon - as assets were not likely to bear any relationship to actual cost or to any sound appraisal. In modern days, when annual reports are clearly stated and asset values known, hardly any attention is given. The fact of the matter is that assets tend to be ignored in choosing stocks. Today we are under the sway of profitability under the guise of high percentages being earned on capital. IBM,

¹⁶ From "Security Analysis", fourth edition, (New York: McGraw-Hill, 1962) the accepted classic in its field.

Control Data, Xerox, Polaroid - these are the stocks with favorable showings.

We forget that high returns earned on capital attract competitors. This long-run contrary factor indicates you must put up with what competition allows you to earn. An immediate example is IBM where experts are beginning to swing around to the view competition is now, and will continue to be, of great significance. When you have capitalized earnings under extremely favorable conditions - look again.

If we are to consciously avoid stocks selling at 4 - 6 times net asset value when only 10% is being earned on invested capital, we must pattern some operations around assets.

Despite the increase in advisory services during bull markets, with the past two years being normal in this regard, bear markets wipe out much so-called "shrewd judgments". Better judgment is not exclusive to any individual or committee. That is why you see experts selling the same shares other experts are buying.

So mechanical systems are developed to counter the human element in decision-making. Even the systems of proved merit have shown themselves unreliable at least once. Like missing a certain type of bull market, or waiting too long to sell out after a bull market has passed. The approach and intellect shown in the creation of mechanical systems supply useful background knowledge. Your total market knowledge and sensitivity may improve, but don't become stuck on any one mechanistic method. This is no solution.

The general indicator approach has tried to overcome the short-comings of any one method by covering all methods under one umbrella. Though of more apparent total value, this tends to rob you of your own thinking. Like a superhighway, any consensus method is appealing enough to dull your senses until you are almost asleep at the wheel. But you still have to drive, remember?

That is where Contrary Opinion comes in, time and gain. C. O. places you on guard against the perfect system or the best approach. A bull market tempts you into feeling that you know the answers - be the answers based on mechanical systems or your own judgment. A bear market robs you of this sureness. But before bear markets come moments of fear, of indecision, of wishing desperately to choose the right option for the market period ahead. For you know that individuals can adjust portfolios and this awareness creates hasty decisions.

Roy Bradbury, of science fiction fame, once stated "We live in America in a culture built on ideas, yet how little we confront ideas!" And may I add that when we confront ideas, we are blinded by past experience. The Great Debate at this writing, investor speaking, is whether we are near the top of a bull market (as in 1929) and if so, what can we do about it? This reasoning fits past experience and our pre-conceived opinions of market behavior patterns. But must we make comparisons with 1929? And if we don't, then what do we make comparisons with?

The Contrarian says that we do not have to be in either state. Cycles are shorter. Cycles that worked for decades are being changed by social security, man-

aged money, and global politics. Indicators don't speak with old-fashioned sureness. Economic resiliency is something new. Stock prices have individual swings instead of old-fashioned bull and bear markets. Maybe recessions will be prevented. They will - in any event - be different from what we have been accustomed by history to expect.

And how will this difference show itself? That is the tough nut to crack. Too many people are now looking for the pre-war business cycle to come back. It may, but not when you expect it to happen. Be wary of the obvious. For once maybe things are different this time.

We will always have the specter of a runaway stock market - in unseasoned issues during 1961 - as another future possibility. The inevitable correction will also come - as in the spring of 1962.

But to say that an economic collapse is certain - ah!, that is another matter. As Arthur Merrill says: "This is not to claim that we have entered another 'new era'. But it is to point out that we are in a different epoch." 17

A Minimax for Investors

Fred C. Kelly and Sullivan Burgess once said: "Our New Era market could hardly have ended in any other way than it did, in a panic. People had to be dynamited out of the idea that they were dealing only in prices and not in values. Seemingly intelligent folk actually began to believe that only minor reactions were ever needed, and that a broad upward trend could last forever." 18

In the 1920's, the authors continued, our credit reserves were not elastic enough to allow for perpetual upward stock swings. A return to common sense in the 1960's also might wring a lot of water from stocks, though today a reasonable effort is being made to invest intelligently. As John McDonald says in Strategy in Poker, Business and War: "The mystery lies in man's relation to man". 19

This leads us into the application of the rules of games to economic and investment behavior. Neumann and Morgenstern suggest in their Theory of Games and Economic Behavior, that "each participant attempts to maximize a function . . . of which he does not control all the variables". 20 And investment solutions cannot be found by all investors trying to maximize their profits. That would be like the new issue boom of 1961 or the Fotochrome mania of September-October 1964 - too many investors after the last and supposedly easy dollar - an obvious contradiction.

Stock investing strategy should reduce the uncertainties that high markets give us. Good strategy, to paraphrase McDonald, requires the use of "minimax",

17 From "Investing in the Scientific Revolution" subtitled A Serious Search for Growth Stocks in Advanced Technology. (New York: Doubleday, 1962)

18 From "How Shrewd Speculators Win" (Wells, Vermont 05774 Fraser, 1964) another excellent emotional primer.

19 New York: W. W. Norton & Co., 1950

20 Princeton, N. J. 08540, Princeton University Press, 1963

that is a policy in which a range of possible wins and losses is adopted on the assumption that there are no certain answers. "Minimax", or the highest acceptable minimum associated with the lowest acceptable maximum, also can resolve conflicts as to where and when to put one's funds.

In other words, you evaluate risk against gain without going to extremes at either end. It isn't the "best" and it isn't the "worst", but the dream stuff that investors get used to can ultimately lead to disasters.

To invest wisely you must make an approach to calculating your risk. Zoom may go up 10 - 20 points in a matter of weeks, but you should also ask yourself whether Zoom can go down 10 - 20 points during the coming weeks. If so, Zoom represents a hunch where your feelings sway the balance. But feelings don't count. Reason counts.

Winning is not just a function of losing. Winning can be "randomized" so that the odds favor you. If a stock has, let us say, a 50% upside potential, try to find a way of investing that maximizes any 50% upside move while minimizing downside risk to 10 - 15%. It can be done. The solution is an investor's "minimax".

It is a maxim of contrary thinking that memories of actual events as carried by news accounts of the past periods in question always become hazier with time. To illustrate: The critical differences between today's working economy and that of over a generation ago are often blurred by those wishing to point out the sameness between 1930 and 1963. Serious and dispassionate reflection on these similarities, may go a long way in allaying our fears.

Power of Suggestion

J. Fred Weston wrote, in his interesting article, that: "In the future an average rise in the Dow Jones Industrial Average beyond 5-8% per annum would be clearly in the category of excesses. Note this refers to an average rate of increase in the Dow Jones Industrial Average over the cycle. This would imply a characteristic 30% rise coming out of a recession, a 10% rise in the subsequent year, and then a sidewise movement in the market for about a year preceding about a 20-25% drop in the market in any recession year of the magnitude in which the Federal Reserve index drop is about 6% and Gross National Product simply levels out." ²¹

We desire, if not demand, solutions that are specific and almost mathematical. And yet, the first step in historical investment thinking requires us to realize that a principle which expresses the need of a particular epoch may have an altered significance at a later time, and may even have no significance at all.

At one time the blast furnace index was a popular leading indicator. Now it is of little value for investment thinking. At present the inventory-sales ratio of manufacturers is popular. But computers and better control methods obviously affect its present reliability as an investment indicator.

As Weston points out, we may feel certain that a certain percentage rise in the level of stocks is clearly excessive but there is no certainty involved in how far the pendulum swings towards undervaluation. The belief in, and interpretation of,

²¹ Eugene Lerner's "Readings in Financial Analysis and Investment Management" (Homewood, Illinois 60430: Richard D. Irwin, 1963)

stock market facts are both too complex and too remote for correct evaluation. In a mass industrialized society we must rely on others for guidance. And there is where the trouble begins.

A significant human problem is to withstand group forces that seek to modify and distort individual judgments.

The business of investing is an actual study of social influence. Personal investing is so widespread that a social group has been formed and we, as individual investors, are no longer indifferent to this group. When we visit brokers' offices we alert to the group. If we hang around long enough we tend to reach agreement with the prevailing opinion since this is the dynamic requirement of a group situation. Otherwise our personalities would suffer.

We tend to modify our judgments in response to the pressure of majority and expert opinion. Majority beliefs and convictions are reinforced by most financial media. Investment practices are adopted on the basis of reasons that appear valid. But each investor comes under the sway of an already existing system of practices and values that he cannot judge independently, and he is affected by them most when he is least able to exercise his own judgment. In other words, character and temperament are more important than charts and systems. We want to endow investing with specific guides that can be counted on. This is good. But, we should realize that our emotions and unconscious behavior patterns, as the tides in the Bay of Fundy, often overrun these guides and just as often leave them stranded.

Independence and basic confidence in your ability to control doubts is a primary requisite for successful investing.

Survey of Hazards

S. A. Nelson said: "All systems at times work out well. Most or all of them break down in practice sooner or later, partly, however, through the inability or unwillingness of traders to follow them when following the rule becomes expensive or dangerous. Many systems are founded upon the tendency in the market toward action and reaction, and they are oftentimes a help, but should always be put in a secondary place, the preference being given to values." 22

Controversy and misrepresentation surround important questions. Great expectations in Wall Street are too often followed by herd thinking and failure. This business of investment is a matter of attempting to project future trends of optimism or pessimism with a large capacity of judging what the public will do under certain circumstances. May I suggest a contrarian should wait for values and not overreach. A survey of hazards brings us back to some kind of sensible, fundamental approach.

One of the important reasons why there were dark ages was because of the lack of calculable law. No one could rely upon the value of money, the accuracy of weights and measures, the stability of government, the safety of farming. Complete inadequacy of all things prevented any concerted effort toward constructive work in socio-economic fields. Perhaps we have come full circle.

22 S. A. Nelson's "The ABC of Stock Speculation" (Wells, Vermont 05774 - Fraser, 1964) is a classic of wisdom for the man beyond his ABC's.

Today we presume we have all problems licked. Russia presumed her agriculture was healthy until too late. She cut her losses after the collapse. India presumed that democracy, state socialism, and aid from both East and West would bring economic success. China presumed that 1000 years of chopping down trees, the land having lost 9/10 of her forests, could be overcome in less than a decade.

Insofar as action and reaction are always present in all things, the impersonality of the pendulum can sweep you away.

The investor's burden of proof is to be aware that industrial advances have outrun growth in logical behavior. We still have psychological forces and foibles to deal with. This includes emotional reactions to concurrent publication of news and opinion. We, as investors, are not as educated as industry. Statements to the contrary notwithstanding.

Investors may be a more experienced breed, but not a new breed. And experience is a relative factor that becomes less useful as the market trends higher. The 1962 lessons slowly fade away. Interest in the stock market is not correlated with wisdom. In 1956 there were about 8.6 million shareholders, as compared to 19 million today. Registered representative totalled 16,000 in 1956 with over 35,000 today. Shares listed on the NYSE were 4 billion then, and will reach 10 billion this year. Quantity is not quality.

Just as many uncertainties face the investor today as faced his counterpart 10 years ago. If, as often claimed, he is more aware of the relationship of uncertainties to the stock market, are his investment decisions any better? Just because he has more intelligent questions, is he emotionally more stable? A look at daily headlines would indicate emotions running rampant in other sectors of society. Excitement comes to the top in all human endeavors. Intelligent questions cannot be equated with emotional caution. The problem, stock market-wise, is when do psychological conditions predominate?

The balancing of uncertainties is a matter of mental attitudes. Logic is largely used to back up our own desires. We can learn through books and by experience, but our ultimate successes and failures rest largely in character and temperament. Contrary Opinion selections follow logical precepts, but your own behavior patterns decide whether you win or lose.

And it is our emotions that must be controlled. As economic needs must be related to available resources, so must the contrary investor be guided to use his own thinking ability. Any program not in sympathy with his emotional climate will not work.

Do not adhere to any formula or system. Keep no idols, but rather stoke your noggin with antidotes for the temptations of conformity. Rely not on a consensus indicator approach as a substitute for contrary good sense. Then you will not be short-circuited. In fact, you may even win.