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The prices of large, successful, rapidly growing, multinational American companies are for the most part once again at new record levels relative to their earnings, assets and dividends. Is this pure speculative madness? Maybe. Has anything happened that might justify higher levels of stock prices today than in May or July? Yes, actually quite a few things.

First among them is that everyone has been talking about the problems in the world economy. From 1929 to 1933 by contrast, many economists, bankers and government officials kept talking about the dangers of inflation and speculation as the world went down in a whirlpool of fear and falling prices. Now the very people who foisted the dangerous American model of unregulated capitalism for developing countries are tripping over each other to identify its faults and propose solutions. In particular it is now quite respectable to advocate controls on currency speculation. And while it is not quite so respectable, it is more commonplace to see countries increasing public spending to fight unemployment.

The second powerful trend in favor of higher stock prices is the resumption of falling interest rates. Central banks all over the world have followed the example of the U.S. Federal Reserve Bank. Almost everywhere in the world short term interest rates and long term interest rates are substantially lower than they were in the spring and summer. Central banks appear committed to making further cuts if the threat of an economic contraction persists.

It is not a change, but it is nonetheless a surprise, that the American economy continues to grow fast enough to reduce the already low level of unemployment. This suggests that many of us may have exaggerated the impact that the Asian crisis would have on our economy. Of more importance, the American economy remains a strong market for the exports of struggling countries in Asia and elsewhere.

Another place that hasn't changed is China. Although predictions of a severe economic slowdown or a currency devaluation were widespread, the Chinese economy continues to grow at close to 10% and to maintain its stable exchange rate against the dollar. (The easing of U.S. interest rates and of the dollar against other currencies has helped.) Much of China's success is because it never adopted the U.S. model. It is still largely a state run economy with extensive controls on all kinds of investment and production. To maintain growth and employment the Chinese have not hesitated to expand government expenditures. All of this is good news for everybody else as well as the Chinese. The threat of a contagion of competitive devaluations has been stopped. China remains a strong market for exports of airplanes, computers, telephone equipment and other capital goods from Europe, America and Japan.

Starting in the late summer surprisingly good statistics were also reported from some of the other countries that had first been hit by the crisis. These countries are not growing rapidly but, Korea for example, has experienced a rapid rebound in exports and a simultaneous rebound in its currency.

At the same time the equities of many thousands of smaller companies remain modestly priced and well below their previous peaks.

Everyone knows that the U.S. stock market has advanced at a record breaking pace to record highs even when compared with company assets, earnings and dividends. Almost everyone also knows that the current environment is one that might have been expected to produce this result: low inflation and interest rates, slow and steady economic growth, a government budget surplus, a distribution of wealth and income that is skewed toward the rich even more than usual, an unprecedented proportion of the population in the peak saving age group of 45-65, the absence of Cold War or any other major power conflict, the unchallenged hegemony of the United States and of the United States political-economic philosophy in the world.

Is there a limit to the market in such a “good news” environment? Presumably yes. Are we there? Nobody knows. We have sailed so far into uncharted waters that all the old guidelines must be questioned. Is some kind of “bad news” possible? It most certainly is. The Asian crisis looks pretty bad already to most ordinary folks. It got converted into good news when Alan Greenspan specifically cited it as the reason for keeping interest rates low.

Like most of you I have been prematurely pessimistic at various points over the last eight years. The gains which most of us have realized are now so large that I think it is time to be cautiously pessimistic again.

During the last four years I have favored a concentration in very large, multinational, fast growing companies, mostly based in the U.S. I only wish I had implemented this policy 100%. All of the “good” things listed above may continue to favor these companies but they have run far ahead of other investments since early 1994.

Accordingly last month I began a policy of slowly and regularly selling some of these holdings where tax and other considerations permit. I am reinvesting equally in three different areas: 1) foreign companies, especially in Europe which are more reasonably priced than their American counterparts; 2) American companies that have not done extremely well and are not obviously overpriced. These include real estate investment trusts, some natural gas companies, electric utilities, some insurance and investment companies and many other small companies. Category (3) is cash and short-term bonds.

I expect that sales of big company growth stocks under this plan will be no more than 5 % of their value each month.