

WAR AND ECONOMY SPUR STOCK DROPS

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Administration Economist

Voices Apprehension as
Market Falls 19.07

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Uncasiness over the United States involvement in Cambodia and the bombing of North Vietnam, plus continuing uncertainty about the nation's business outlook, created a mood of deep pessimism on Wall Street yesterday and sent the securities markets into a tailspin.

Stock and bond prices fell sharply in response to selling by discouraged investors. The Dow-Jones industrial average, a gauge of price action on the New York Stock Exchange, plunged 19.07 points in its worst decline since the loss of 21.16 points Nov. 22, 1963, the day President Kennedy was assassinated.

In Washington, a leading Nixon Administration economist expressed apprehension about the situation. "The Administration is obviously concerned," he said, declining to be publicly identified.

"An emotional reaction triggered by the stock market decline may mislead people concerning the basic strength of the economy and its favorable prospects," he asserted, adding that "the facts in the economic sense are pretty good."

His statements represented the first clear indication of anxiety by the Nixon Administration with respect to the stock market's behavior. They were issued before the close of trading and before it was clear that yesterday's nosedive would be

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the largest in more than six years.

The selling generally was not panicky, although it was steady and affected the vast majority of stocks. Trading activity on the New York exchange was below crisis levels, totaling 11,450,000 shares, or only slightly above normal for recent sessions.

This provided little consolation for Wall Street's professionals, however, because yesterday's decline was one more in a long and disheartening series dating back to December, 1968. Since then, the Dow-Jones average has lost more than 270 points and the retreat is considered the worst since the Depression.

The situation was equally as gloomy in the bond market, where prices tumbled and interest rates scared to record highs in reaction to a new spate of doubts about the health of the economy. Brokers were fearful that the Cambodian developments would

halt the downtrend in Government arms spending.

Any unexpected upsurge in such outlays could push the Federal budget into another deficit. This would increase the demand for borrowed funds at a time when investors have shown a decided reluctance to commit their resources to the securities markets.

Highest in History

The decline in the price of the new debentures being offered to investors by the American Telephone and Telegraph Company was so large that the yield—or interest rate—rose to 9.19 per cent, the highest in history for such high-grade corporate bonds.

Meanwhile, the steep decline in stock prices was beginning to trigger a rising number of margin calls by banks and brokerage houses. Margin calls are requests for additional collateral to back up loans made on securities. They are sent out to investors when securities prices have fallen so much that market values are deemed insufficient collateral for the loans.

Such calls can cause even more selling of shares to raise the cash to meet the need for additional collateral.

Experts say, however, that margin calls have not yet been a serious contributing factor in the general market retreat, partly because the Federal Reserve Board's requirements today are somewhat more stringent than during past market crises.

Rather, plummeting prices reflect a general disbelief that the nation's involvement in Indochina can be resolved easily and that the Nixon Administration's policy of economic restraint can cool off the economy without tipping the United States into a full-scale depression.

Brokers report that the most optimistic development that could occur now would be a so-called "selling climax" characterized by extremely heavy trading and price declines of even greater magnitude than those already experienced. Such a climax, they say, would squeeze the last of the weakness out of the market and clear the air in preparation for a new advance.