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https://www.100test.com/kao_ti2020/108/2021_2022_07_E5_B9_B4_E6_8C_87_E5_AF_c70_108326.htm Passage Seventeen (A Strong Stock Market) The increase in the margin rate from 50% to 70% was not an attempt to stem any rampant speculation on the part of the publicactually the market seemed technically quite strong, with public participation essentially dignifiedbut rather an attempt by the Federal Reserve Board to preserve the sound underpinnings that existed in the market. Naturally, such a move had a momentarily chilling effect upon prices but if the FRB had been preoccupied with undue speculation, the increase might have been to the 80% or even 90% level. Such an increases in the margin rate is a confirmation of a strong stock market and since 19···,such increases have resulted in interim market highs over twelve months later. Obviously, there could be no guarantee that this would once again be the case, but if history is any guidelineand if business and corporate earnings were to continue on the same coursecontinued optimism over the outlook for the stock market would seem more prudent than pessimism. The margin increase underscored the good rise that stocks had enjoyed for the previous yearand the fact that a 50% rate was maintained as long as it was pointed up the fact that the rise was mainly conservative in that it was concentrated in the blue chips for the most part. In past Investment Letters we have voiced the thought that speciality stocks could outperform the general market from this point. We continue to believe that this could be the case. For example, steel stocks tend to sell at certain fixed price/earnings ratios. Below a certain ratio they are considered good valueabove a certain ratio, overpriced. If a company produces a unique product it is far more difficult for market analysis to place a numerical ratio upon the company ’ s earnings. We have also contended in the past Letters that the stock market reflects mass psychology as well as the business outlook. When investorsboth the public and the institutionsare nervous and pessimistic they definitely hesitate to buy stocks: they seek low price/earnings multiples and high yields. These same investorswhen they are in an optimistic frame of mindbecome for less preoccupied with yields and more wiling to pay a premium(high p/e multiples) for accelerated growth. If the public ’ s attitude towards the auto industry is any measure, then this period seems to have been one of optimism. 1. The title that best expresses the ideas of this passage is [A]. A Time to Sell Stock. [B]. A Strong Stock Market[C]. Raising the Margin Rate [C]. Price/earnings Ratio in Steel 2. When investors are pessimistic what do they do?[A]. They look to the FRB for help. [B]. They buy steel[C]. They buy automobile stocks. [D]. They look for high yields. 3. Why does the writer believe that speciality stocks could outperform the general market?[A]. Because analysis have difficulty in deciding upon a fixed price/earnings ratio.[B]. Because the activity had been limited to blue chips.[C]. Because the rise was conservative.[D]. Because of the FRB action. 4. When investors are optimistic, what do they do?[A]. They look for accelerated growth. [B]. They buy speciality stocks.[C]. They look for high yields. [C]. They are more prudent. 