

Wall Street Week with Louis Rukeyser; 2628; The Templeton Magic

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- Transcript

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Produced Friday January 10th. Our panelists are Alan Bond Mary Pharrell and James Grant. Tonight's special guest is John M. Templeton founder of the Templeton Funds. Good evening I'm Louis Rukeyser This is Wall Street Week. Welcome back. Well I know that children grow up fast these days but this is ridiculous. If you take a look at that new year's baby on Wall Street. Just 10 days into 1997 and the kid threatens to take over the entire neighborhood he's grown by more than 255 Dow points just since he gave the boot to 1996. He busted four records in his first full week on the scene and the sassy devil is burgeoning at a pace that if not checked by parental discipline would put the Dow up by more than 9000

points in the next 12 months. Is there no such thing as respect for one's elders anymore. Goodness knows large sectors of the establishment were doing their best to keep the kid in his cot. Washington was in moral chaos. The chief partisan argument was over which major office the presidency or the House speakership had acted more improperly in trying to manipulate public opinion about its alleged transgressions. On the economic side a ludicrously belated attempt to confront the looming problems of Social Security was bogged down perhaps for years in a condescending dispute over whether the American people were competent enough to manage more of their retirement savings on their own. This mind you from a government whose brilliance in money management has been demonstrated by an inability even to come close to breaking even despite virtually nonstop increases in taxation. And all of whose would be solutions

to the retirement dilemma somehow wind up proposing even more tax hikes. With a money management record like that. You might think Washington would be showing a little humility about turning over more financial power to the people. If you've never been inside the beltway that is. Not

that Wall Street was covering that self with ethical laurels either. They're the scandal of the week concerned charges that about 50 stock brokers were so stupid that they went out and hired impostors to take their broker a licensing test. Traditionally one of life's less taxing examinations. And scarcely evidence even for those who pass it honestly of the ability to make a dime for the customers. As if all that one enough to keep the new year's baby trembling in his crib. The bond market was out there trying to play boogie man again. Screaming in terror about a moderately higher than expected increase in jobs and wages last month.

The bond ghouls went shrieking into their scariest performance in three months. Sending the benchmark interest rate on 30 year Treasury bonds up to six point seven percent. And the overseas hobgoblins added to the caterwauling as the already bleeding Japanese stock market opened the new year by tumbling another 10 percent in its worst weekly slide since 1990. There's nothing scare this wall street kid. What are they putting in his milk anyhow. We tonight will seem to get answers to that and other profound questions by seeking the wisdom of the preeminent international investor of the 20th century. Our old friend John Templeton. But first let's gather up some clean diapers and pay a visit to the nursery. It wasn't that the bond market's latest gyrations didn't cause stocks in Friday tremors on Friday morning alone stocks dive 60 points before reversing. But as the Dow Jones Industrial Average indicates in the end investors

decided that an economy that stubbornly refuses to expire may provide further happy surprises on corporate earnings. And so after a mere three days of getting their first ever kicks on Route 66 hundreds. The Dow went even higher and unit sixty seven hundred three point seventy nine a gain of nearly 160 points on the week in the heaviest trading in the history of the New York Stock Exchange and the market strength was so broad that every number you see here except for the Amex is itself a record. If you think you were stunned by the early strength of stocks in 1997 our elves were absolutely paralyzed. None budged in the voting on where the market's heading next. The consensus remains that a bullish plus three and the Halos above Routh Akam Pora Harvey Eisen and Mary feral mean that they were correctly bullish three months ago. With bond rates continuing

to inch up though they're still well below the panic levels of last spring. The desirability of holding U.S. currency increased for the international set and the dollar fattened at the expense of every other major currency except the Japanese yen. And as usual lately the inflation alerts which not so incidentally have not yet spread to the Federal Reserve did nothing for gold which traded at depths not seen since 1993. Meanwhile in the most cautionary tale of the week the attempt by Britain's Virgin Group tycoon Richard Branson to fly around the world in a balloon ended embarrassingly in less than 14 hours. Caviar. Microwave and all. The lesson for Washington I suppose is that even with all the optimism in the world hot air can take you only so far. Now if I only called you a Pollyanna but now you're looking like any Oakley how much longer can this go on.

Well I think the problem with today's market is it's not dramatically undervalued. On the other hand it's not overvalued So I think the momentum is there. I think the market can go on. I think we remain firmly in a bull market but I think as those interest rates going up we've escalated the

likelihood of a correction. Is there a number that the stock market can stand. I miss my arms go the fuel goes over 7 percent is a very bad one for stocks. 7 percent has always been a break point particularly the fact that inflation is so low means that we're getting a real return on the bond that by any historical measure is very attractive. So I think if we went up to that 7 percent level investors would be taking a look. But you have to offset that with that low inflation in the. That means that we have some earnings that are still looking pretty good. Combined with low inflation that's not not that's remains positive for stocks. Everybody else is forecasting interest rates that we let you into the game. What do you think of that. I think that we're going to see interest rates lower by the year and then we see today I'd say you know 6.3 perhaps by year end. So I think the direction remains down. This is just another

one of those bond market back ups of over reacting to economic news which really is not that significant. If you're wary about a correction which would be silly I think in here. It's hard for me to do in a bull market Lou. Of course everyone's always selective but I think right now what you really want to do is be very selective because when you're facing the possibility of a correction you want to make sure you're in the strongest rather than the weakest flexion. Well stocks this week. What do you think of them. Very strong. I think the oil industry is finally doing what it's very belated and it's one of the few industries that hasn't gone through restructuring we're seeing companies like Mobil oil out there doing this restructuring. I think that is really going to drive some of those companies much higher. On bond to get nervous. I'm not nervous yet Lou. I think we have had a very significant breakout in this market after being in the trading range going back to November of last year. And typically what you could have been which is what we've seen as you mentioned with the oil sector. You have one particular sector that money just flows into and it

causes a breakout and you know you're going to continue to see some sector rotation in this in this market and I think as a year continue to unfold investors become very much a selective again since it appears to be the week. Stock group what do you think of the oils. Well I like the oils very much I think the moves that Texaco's made in restructuring that stock has really pave the way. I think also some of the companies like Baker Hughes also like Chevron look very attractive but the thing about that sector it's been the entire group it's been a real broad broad broad move. Some of us have very long memories and they remember the 1970s a decade in which rising oil prices. So you know bad news for the general economy and for the stock market. What are the chances that this is a repeat of that. Well I don't think it's been a repeat. The primary reason is because that the demand in this instance has come from overseas it's come from Europe. And with that significant demand outpacing the United States at least the expectations we haven't really felt the dramatic

rise at the pump. In an editorial this week the Wall Street Journal referred to bears like James Grant which I thought was insulting to Jim since there are no bears like him there are no others. And Jim we are heading toward our day of reckoning that a faster paced higher diving. I think that the principal issue before the markets is whether the world is still cyclical or whether it is embarked on an ever more perfect economic climate more closely approaching room temperature and the cyclical

camp. There are cycles. We have tried our enterprise to exploit them by and doing things like getting bullish on commodities when they were deemed to be permanently favor and are now increasingly bullish. South Korea which is world class companies are selling at two and three and five times earnings because it has had a 35 and 40 percent bear market in 1996. So there are cycles in the world and I think the U.S. stock market will get its.

Three Queens with little experience at a supermarket. Wait wait wait while that they have moved up a very small amount are in fact at a level that we haven't seen in about a year. There are some pressures on some commodities. Are you concerned that we are going to have some worse inflation this year. Well it's an interesting pick. Yeah I think that the at least the appearance of inflation is becoming more and coming more and more into focus wage rates are looking at their 4 percent gain rather than a 3 percent gain last year. There are rising real estate prices we haven't seen for a good while Price That's \$26. And yet nobody believes that the December 97 oil price like \$21 So there is not only the evidence of rising prices and also an innate disbelief in them. So all these things I think bode well for a little fillip in the inflation rate. At the same time we have this curious and persistent deflationary undertone in the world Germany can't seem to grow on the contrary it seems to shrink and the

Japanese don't work it as is pulling down the capacity of Japanese banks to create credit something akin to them in the 30s. Would you buy or sell 7 percent Treasury bonds. I'd buy them against so-called risk rates everything is true in the bond market as if it were a treasury every single risk rate you can name is priced at a near-record tight spread the treasuries. I think one of the great trades the bond market going for is to be long treasuries against almost anything else you can even junk bonds to investment grade corporates to mortgages. The that small spread would indicate too much optimism generally in your view. Yeah there's not there's nothing really to go wrong it's the bond markets answer the stock market the Nasdaq at 50 times it was it was kind of one thought in financial assets and that thought is the room temperature thought toward favor a winner always a pleasure to share a favor with you. Remember now that all the cute little New Year's babies at our house are just gurgling with joy at the prospect of hearing from you this month. So don't let the little darlings down. Send your

comments your questions to him from tile fantasies to us here at Wall Street Week Owings Mills Maryland 2 1 1 1 7. Or fax them to us at 4 1 0 5 8 1 0 9 8 0. And now let's go over and meet tonight's special guest John Templeton. Welcome back to you. Thank you Louis. Real pleasure my pleasure. At the age of 84 John Templeton or Sir John as he is known to his neighbors in the Bahamas is still setting records. Tonight he adds another one by making his 15th appearance as my guest on this program. It's now four years since John sold his Templeton Funds to the Franklin group a crowning achievement of a career that brought global investing to the attention of the average American. But this charter member of the Wall Street Week With Louis Rukeyser Hall of Fame still follows the world's markets daily and lets his successors know what he thinks. John. Has the

optimism in the American stock market gotten out of hand yet. It's hard to say that. But certainly the market having gone up to eight times where it was 15 years ago is a speed that you can expect to continue if the market it only quadrupled in 15 years it would still be normal. You told us we get to 6000 in this decade we're above that in 1997 have we come too far too fast. Yes but in the long run share prices will be even enormously greater. With the advantage of data for years let me point out that when I was born the Dow Jones was only 25. Now it's six thousand seven hundred. Now if that rate of speed keeps up in another century the market will be a million 700000. As you look around the world how does the U.S. stack up. In terms of you talk market valuation is based moderately higher than the world markets in general. But there are some were there more than 12 World markets that have gone down 50 percent from their highs just in the last eight years. So naturally in those

world market you find better bargains. You've always told us to look for the point of maximum pessimism to your buy in where they are for gloomy right now. The nations that have gone down greatly Mexico Brazil. Portugal Italy Greece Turkey Russia went down 50 percent. The Czech Republic. So did China. So did Korea. So did. Australia New Zealand in all those areas you'll find more bargains and you did eight years ago you conspicuously failed to mention Japan despite its recent troubles is it still too expensive for your taste. Yes louis. I began to buy Japanese stocks in 1970 when they were selling an average of only four times earnings. But now even despite the decline they have the highest price earnings ratio of any major market. So I would not now can begin to buy again in Japan. On the other hand the neighboring country

much larger China reminds me of the situation that Japan was in in 1970 because China has three times the population of America and yet their market cap. Of all the stocks available in China is only one one thousandth of the market cap in America. So there's a potential there that is great even as great as Japan was in 1970. Is there anything in the U.S. that you buy at this point. Yes. I believe the real estate stocks have not gone up. Real estate prices have not gone up like share prices have and so those stocks that specialize in real estate such as real estate investment trusts are still reasonable. Do you have any special favorites. None particularly No I. I have bought several of them particular the one managed by Fidelity. You have told us a couple of things over the years that are relevant to this week's news. First you never much liked Bonds you know like I'm any better today. Yes I do.

Lewis I remember more than 10 years when no U.S. Treasury bond yield over two and a half percent. Never. And it is same time share price I mean Chair yields would double that 5 percent. In fact throughout the whole first 50 years of this century it was considered normal that shares would yield twice as much in dividends as bond paid in interest because shares were more risky. So it's refreshing to look back now as to the attitudes that people had and how different they are at the day when three times as much as stocks. So naturally they are better. So you'd buy some of those 7 percent Treasury bonds would you. No I wouldn't. You still think you can do better by picking stocks. Yes provided you do it worldwide. Common sense tells you that if you look in all markets you'll find more bargains. Maybe you'll find better bargains but definitely you'll get more

diversification if you're diversified in many markets you do not need to worry about what's going to happen in one market. You for decades have been a strong advocate of mutual funds for people of any income level and with any amount to invest. That was a semi popular idea for a while now it's the craze of the nation. Are you surprised at the growth of interest in mutual funds. Yes it's much greater than I anticipated when I was in high school there were only one mutual fund in America that the Skoda Stephens and Clark fund when I became an investment counselor in 1940 there were only 85 mutual funds in the world. Now there's 6000 and then more mutual funds and there are shares on the Stock Exchange. So the field is overcrowded but still mutual funds do give you two big advantages one is the diversification because all mutual funds have a minimum of 10 stocks most of many more you know or so mutual funds do try to hire experienced people expert security analyst to run them. So you have two big advantages in mutual funds which is going to cause them to be popular for another generation. John you're one of the most successful investors in the world you also are a spiritual

man. You give the money for the Templeton Prize in religion the world's biggest prize you've always taken an active interest in that area. Many people regard Wall Street and capitalism as the enemy of religion. How do you reconcile these ideas. Oh there's no no conflict whatever. If you are trying to do the most for people if you're trying to help people the most you'll be most successful. Success comes to the person who during your next tries to guilt rather than to get. If you're working in Wall Street as a as a security analyst or if you're working in any business where you're really trying to help the customer you'll be successful yourself. So free enterprises is a spiritual aspect a part of part of religion should be the free competition of ideas free competition of everything in free enterprise so the two go hand in hand. As you'll see by look around the world the nations that did not allow for free enterprise such as the communist nations didn't prosper the ones that have the maximum competition and interest in

finance They're the ones who help everybody. Let me bring in my own college of cardinals starting with the cardinal Mary Farrow. John when you buy a stock in the U.S. can have a reasonable good level of confidence it because we have accounting standards we have reporting requirements when you're selecting stocks and some of these other countries particularly the emerging markets how do you overcome the lack over dubious information. Well you can't you just have to take the risk. But you overcome it largely by diversifying. Still that's always been the case. When I began Investment Council in fifty seven years ago you had very little information in America either. So in order to get in at low levels you have to put up with some black. John. This market has been fantastic over the last two years. Are there any things that you could see on the horizon that could stall this market's advance towards that million. You know James I've never been any good at saying when markets will turn. They bore markets are always followed by bear markets

but I've never had any method and I haven't yet any way to tell when the turn will come. Sir John you know mutual fund customers probably as well as anyone having dealt with so many of them. What happens if as and when this market does turn. Are they going to sell or are they going to

stoically stay fully invested and borrow against the equity of their homes to tide them over this temporary dip you know how they could behave. For if it's a small bear market of 10 percent or 20 percent they will stand steady. But if their market goes to 30 40 percent is it possible then I believe they would panic if they did in Japan the best example there is the amount of money that Japanese people invested in Japanese mutual funds went down to only 20 percent. And what it had meant it to be for the market. With all the problems in the world today and we are reminded of them every day from the afternoon talk shows with to try to serve society to the evening

local news programs. How do you remain such an optimist. All of us should be overwhelmingly grateful we are living in the most glorious period in all world history. Just take for example the field of medicine the knowledge in medicine is doubling every 15 years. We know 100 times as much about your body as we knew just a century ago. The same thing is true in practically all areas of life. Not only that but it's speeding up. There are more research analysts today of all in all industries than ever before. The amount of money spent on scientific research now is a billion dollars a day worldwide which is 100 times what it was 50 years ago so that with more research and better investment management all the other advantages. We're coming into a period is likely to be even more progressive more rapidly progressive more glorious than the last 50 years. You have noted that the Dow Jones Industrial Average has risen eight times since you were on the program in

1982. What are the chances it will rise another eight times the next 15 years. Very very slim. But let's look at it this way. Suppose I had been on your program at the very top day in 1929. The Dow Jones at that time reached three hundred eighty one. If you had put a million dollars into the market then today you would have 70 million dollars. Or if you had reinvested your dividends you'd have two hundred fifteen million dollars today. John Templeton thanks very much I wish I had a million then and there we do have to stop I hope you'll join me again twice in the next week the first time will be later tonight on most of these PBS stations but check your local listings for a very special hour our 10th annual Louis Rukeyser Money Guide. My guests will include key movers in the Old and the new American economies. Bob Eaton of Chrysler and Jim Clark of Netscape. Plus a dazzling array of financial experts on everything that will affect your money in 1997 from Washington to Wall Street. So join us and make sure it's a happy new year for your money. And

that of course will be back at our usual stand for this program next Friday when we take a special look at what's really ahead for the economy with a trio of eminent seniors in a class of crystal balls that promises to be truly shattering. Meanwhile has it been lost we come with you guys and good night. Wall Street Week With Louis Rukeyser is a production of Maryland Public Television made possible by the Corporation for Public Broadcasting. And by the annual financial support from viewers like you by provincial securities with more than 50 600 financial advisors nationwide provincial securities can help you invest your money wisely by A.G. Edwards providing a full range of personalized financial retirement and estate planning. A.G. Edwards trusted advice exceptional service and by often hyper fun because of solid investment performance and sound financial planning go hand in hand. With.

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