TABELL'S MARKET LETTER

Delafield, Harvey, Tabell
909 STATE ROAD, PRINCETON, NEW JERSEY 08540
DIVISION OF
Montgomery, Scott, & Co.
MEMBER NEW YORK STOCK EXCHANGE
MEMBER AMERICAN STOCK EXCHANGE

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In a generally sloppy performance, the stock market moved sideways to lower last week with the major averages remaining in the oft-cited trading range that has contained them since August. The commonly noted reason for the weakness was a sharp drop in the FRB industrial production index, causing a number of commentators to express doubts as to whether the powers that be are sufficiently sensitive to rising unemployment and other deteriorating economic indicators. Such comments, in our view, reflect an improper understanding of the effects of monetary and fiscal policy on the economy. The tools work -- but not instantaneously. The results of applied policy do not manifest themselves until sometime after the application, and the time lag with which various economic indicators respond varies.

It is, for example, a matter of history that stringent monetary restraint was applied throughout most of 1969. It is equally a matter of record that money has been easier since the beginning of 1970. The sensitivity of various economic sectors to alternate restraint and stimulus has been diverse. The most sensitive sector was the stock market which responded to monetary restraint by declining sharply last May and which, under monetary stimulus, has since recovered. The rate of inflation, just now beginning to decline, was the next major sector to respond to monetary stringency. The last, unfortunately, will be unemployment, which has continued to rise to new highs and will probably continue to do so for most of 1971. Finally, however, the results of continued monetary expansion will be felt here also.

It is at least an arguable premise that the administration has some understanding of this sort of timing, coupled with a rather strong vested interest in seeing an improving economy in 1972, when it will again present itself to the voters. If one theorizes that, at some point in 1971, when the outlook for the following year becomes clearer, the stock market will begin to "look ahead", then 1971 could be a reasonably good stock market year. This has been the case in previous regimes as a study of the stock market in the four years of each presidential administration since World War I shows. The percentage change in the Dow-Jones Industrial Average for each year since 1917 is set forth in the following table, with the column headings referring to the first, second, third, and fourth years of each presidential administration.

FIRST YEAR		SECOND YEAR		THIRD YEAR		FOURTH YEAR	
1917	-28.73	1918	+17.45	1919	+28.32	1920	-31.76
1921	+10.53	1922	+21.68	1923	- 3.09	1924	+22.69
1925	+33.87	1926	+ 1.71	1927	+28.75	1928	+48.22
1929	-17.17	1930	-33.77	1931	-52.67	1932	-23.07
1933	+66.69	1934	+ 4.14	1935	+38.53	1936	+24.82
1937	-32.82	1938	+28.06	1939	- 2.92	1940	-12.72
1941	-15.38	1942	+ 7.61	1943	+13.81	1944	+12.09
1945	+26.65	1946	- 8.14	1947	+ 2.23	1948	- 2.13
1949	+12.88	1950	+17.63	1951	+14.37	1952	+ 8.42
1953	- 3.77	1954	+43.96	1955	+20.77	1956	+ 2.27
1957	-12.77	1958	+33.54	1959	+16.76	1960	- 9.34
1961	+18.71	1962	-10.81	1963	+17.00	1964	+14.57
1965	+10.88	1966	-18.94	1967	+15.20	1968	+ 4.27
1069	-15.19						
Average	+ 3.88	Average	+ 8.01	Average	+10.54	Average	+ 4.49

The average stock market year-to-year performance in the 55 years since 1917 has been a 6.4% advance, and the median performance an 8.4% rally. As the table shows, however, the average advance for the third year of each presidential administration has been considerably above this average and, indeed, nine of the 13 years since World War I have produced advances above the median. The recent record is even more interesting. The market has advanced, with one exception, in the third year of every administration since the first Roosevelt term and in every year since 1951, the advance has been a healthy one.

It is, by contrast, in the first and second years of most administrations that stock market damage has tended to be done. Since 1929, every major bear market, i.e., 1929, 1937, 1946, 1953, 1957, 1962, 1966 and 1969, has begun in the initial years of an administration.

Since present economic policy suggests an upturn beginning somewhere late in the second half of 1971, it will be interesting to see whether the pattern of the bullish third year again holds good.

Dow-Jones Ind. (11:00 a.m.) 756.16
S&P (11:00 a.m.) 82.97

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

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