TABELL'S MARKET LETTER

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August 9, 1974

It seems to us impossible, from any rational point of view, to view the events which culminated last night and today with any feeling other than sadness. We find ourselves, in addition, in agreement with those commentators who have expressed admiration for the viability of the Constitutional structure. Beyond that, we do not think it is the province of this letter to comment on those events except insofar as they relate to securities markets. The response to the first rumors of resignation, it will be recalled, was a shrap three-day, 45-point rally ending on Wednesday with some correction on Thursday and Friday morning.

Although Presidential resignation is an experience unique in 200 years of American history, the stock market's action was, in initial appearance at least, simply another repetition of a phenomenon that has ample historical precedent. That phenomenon centers on the fact that, shortly after any sudden and unexpected change in administration (or change in direction of administration) the market tends to respond initially with an extremely sharp, short-term rally. That short-term rally, moreover, often constitutes the takeoff point for a sustained advance later on.

Let us consider the precedents. On Sunday night, March 31, 1968, President Johnson announced he would not seek reelection and would actively pursue peace in Vietnam. The Dow moved ahead 20 points on the following Monday, setting an all-time volume record in the process and continued the advance throughout the early part of the month of April, advancing over 50 points in two weeks. On November 22, 1963, President Kennedy was assassinated in Dallas. The initial response was a panic decline of 20 points, with trading halted early. However, after a three-day closing, the market opened the following week with a 32-point advance, closing 11 points higher than it had been the day prior to the assassination. The rally continued into early December for a total advance of more than 150 points. On April 12, 1945, President Roosevelt died at Warm Springs, Georgia, with the presidency passing to Vice President Harry S. Truman. On the following Monday, the market advanced sharply on expanded volume, and continued the advance without any substantial interruption for the next two weeks. Going back even farther, the aftermath of the death of President Harding, on August 4, 1923, was an initial decline followed by a sharp rally throughout the remainder of August, which produced a 7 1/2% advance.

Now, the reason for this sort of behavior is not the fact that the market exhibits a macabre excitement at the unexpected removal of a President, by whatever means. There exists, rather, in our view, a strong psychological tendency to rally round a new President. We thus, at the time, called the 1963 action the "Johnson Confidence Boom." If a rally from current levels ensues, the appelation, "Ford Confidence Boom" will probably not be a misnomer, just as it is, likewise, arguable that, in the earlier cases, the market was expressing initial confidence in new Presidents Coolidge and Truman.

The conditions preceding the changes in administration above and their longer-term aftermaths are also interesting. At the time both of Roosevelt's death and the Johnson announcement, the market had been advancing for a number of years. Both of the ensuing rallies, the one in 1968 lasting for nine months, and the one in 1945-46 for 14 months, proved to be the final advances of their respective bull markets. In neither case, did the market correct substantially following the initial rally. In 1923, by contrast, the market had been drifting lower for most of the year. The initial rally in August was retraced entirely in September and October, but prices went on from the October low to advance almost uninterruptedly into 1929.

The 1963 experience, in many ways, constitutes a unique case. At that point the market had been advancing for over a year but was beginning to show distinct signs of weakness, including sharply deteriorating breadth conditions. The boom of confidence in President Johnson was of sufficient strength to turn that technical condition around entirely in the first few months of 1964 and to lead to an advance which went on for over two years.

If any sustained rally does develop from the current levels, then, it will undoubtedly be viewed by many as being ephemeral. Historical precedent, however, hardly suggests that this is likely to be the case.

Dow-Jones Industrials (12:00 p.m.) 777.77
S & P Comp. (12:00 p.m.) 80.90
Cumulative Index (8/8/74) 462.05
AWT/jb

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