TABELL'S MARKET LETTER

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There exists traditionally, in the minds of most Americans, some sort of tenuous relationship between the fortunes of Wall Street and those of the Republican Party. This image probably goes back to the days of Thomas Nast cartoons depicting bloated capitalists with dollar signs on their vests. There is at least some logical justification for the association in that Republicans have been called the party of business, and it is indeed undeniable that, over the long term, the overall level of business profits constitutes the basic determinant of securities prices. Nonetheless, attempts to link Republican political fortunes to the level of the Dow Jones Industrial Average have, over most of the past century, foundered on the hard rock of statistical fact. Somehow, the financial community conspicuously fails to treat Republican successes with the elation that, subconsciously at least, many observers have come to expect.

The truth of this particular axiom has been demonstrated once again over the past year. Mr. Reagan was nominated last July and elected last November. With the passage of his tax bill in both the House and Senate this week by larger-than-expected margins, coupled with Congress' prior acceptance-in-toto of his budget proposals, he has recorded a political success perhaps unequaled since the fabled first hundred days of the Roosevelt administration in 1933. The stock market's total response to this phenomenon has been a yawn. On all three of the occasions mentioned above, the Dow Jones Industrial Average remained steadfastly in the low 900's.

To those who believe that the market possesses some sort of collective wisdom, the inevitable corollary is that it is sending us some sort of message by its apparent total boredom with the present administration and all its works. Those of a bearish frame of mind, including the purveyors of "disaster chic", are forced to the conclusion that the message being conveyed is that the administration's economic program, quite simply, is not going to work. The gloom-and-doom theorists have never been able to perceive any alternative between an ever-increasing inflationary spiral and deflation so severe that it leads inevitably to depression. They remain totally skeptical of the middle ground that the Reagan program purports to offer. Since most of these savants presumably emerged from their bomb shelters long enough to vote for Mr. Reagan last November, they must be at least mildly embarrassed at finding themselves in bed with such apostles of the old order as Walter Heller, who are equally vocal in assuring us that no middle ground exists.

It has never been the view in this quarter that the market was a sort of Delphic Oracle with the ability to "know" things that the rest of us don't. Indeed when the market demonstrates such knowledge it is generally and reliably wrong. The last such demonstration of prescience that we can recall was the certainty in 1972 that earnings and prices for the "nifty fifty" were going to go on increasing forever and ever. Prior examples of the market's "wisdom" include the inevitability of a post-war depression in the late 1940's and the certainty of continuing prosperity in 1928-29.

With this background, we find ourselves singularly undisturbed by the apparent lack of enthusiasm for the Reagan program. Indeed, we should have found it a great deal more disturbing had the market greeted the President's arrival by going on one of its periodic tears and equating his accession with some sort of new version of the Second Coming. One can find ample historical precedent for the present torpor in the year following the election of both prior new Republican presidents. Both in 1952, following the election of General Eisenhower, and in 1968, following that of Mr. Nixon the market did nothing over most of the subsequent twelve months. In the case of Eisenhower, at least, it found itself just about having doubled by the end of his term.

In contrast to any oracular quality, we think the market tends, at any given time to reflect the state of conventional wisdom, conventional wisdom that has only slowly and painfully developed over long years of experience. Since the year-old Reagan fiscal policy essentially represents a reversal of almost a half century of prevailing wisdom, it is far too early to expect the market to have developed any collective thinking on the subject whatsoever. The current conventional wisdom reflected by the equity market quite obviously centers not around politics but interest rates and the theory that these must in fact come down before stocks can be expected to go up. As is the case with most such widely-held views, we suspect this one may find itself rudely shattered in one way or another over the next few years. By that time, the market may have developed the view of the Reagan economic program which it now resolutely refuses to express.

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AWT:rs

Dow-Jones Industrial Average (12:00 p.m.)	949.58
S & P Composite (12:00 p.m.)	130.61
Cumulative Index (7/30/81)	1142.77