

# TABELL'S MARKET LETTER

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A couple of months ago, President Reagan was being rather widely taken to task in the press for the "failure" of his economic program. The President, not unfairly we think, pointed out that, at the time (late September), his allegedly failed economic program had not yet begun --- the centerpiece of that program being the tax cut which went into effect October 1. The current hot item in the financial press, of course, is recession. Whether this recession is or is not linked to Reaganomics is a question whose answer seems to depend largely on the political affiliation of the commentator involved. Nonetheless it is worth pointing out that the recession in question hasn't yet happened.

Now that statement, we admit, is probably not quite true. If as and when the National Bureau of Economic Research, the official arbiter of such events, gets around to telling us that we were, in November 1981, in a recession, it will probably identify that particular economic contraction as having begun sometime last Summer. Nor are we questioning those savants who are forecasting a less-than-rosy economic outlook. Indeed, the President himself has used the phrase "hard times", one nostalgically redolent of his 1930's upbringing, to describe what may lie ahead on the economic scene.

Long-term readers of this letter are familiar with its biases, and they will probably be able to detect, from the introduction above, the subject of this particular discourse. They are right. It is yet another sermon on the interrelation of economic events with the stock market. In this connection, we think it is worth drawing attention to two other themes that have appeared before in this space, first, the distinction between forecasting and journalism and second, the fact that the stock market leads the economy.

Journalism is, of course, the reporting of events, and, as far as economics is concerned, events tend to be confined to the official release of various statistics, such as Gross National Product and Industrial Production. The former has been declining since early this year, and the latter since August. Both are likely to continue to do so. What we are saying, of course, is that as far as journalism is concerned, our biggest dose of recession news still undoubtedly lies ahead of us.

Forecasting, on the other hand, is a different animal. It is no trick to look ahead and suggest that forthcoming economic figures will be bad. As we look further ahead and try to figure out just how bad they will be and for how long, the process becomes more subject to error. There has, moreover, been plenty of error in the past forecasting of some of the econometricians about whose predictions we are hearing so much today. The most pessimistic among them may be right. Their record does not necessarily inspire confidence that such is the case.

It now becomes necessary to tie all of this to stock prices. We ourselves, as readers are aware, are not optimistic on this subject. Since we like to think of ourselves as rational, however, one simple eventuality would make us a great deal more optimistic --- i.e., lower prices. If these lower prices occur, it is possible to foresee at this early stage that they will be accompanied by widespread heralding of economic disaster.

The following, in other words, appears to be the future outlook for those factors which will be the input for forthcoming investment decisions. That near-term economic news will be abysmal can be regarded as a virtual certainty. The course of stock prices is less certain. Either they will refuse to decline in the face of that poor economic news, which will be a sign of great technical strength, or they will move lower as the news manifests itself, which would simply be the normal expectation. What can be suggested, on the historical record, is the fact that equity prices will be close to their absolute low at just about that time that economic reporting is most pessimistic.

AWT:rs

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Dow-Jones Industrials (12:00 p.m.) 849.22  
S & P Composite (12:00 p.m.) 121.36  
Cumulative Index (11/19/81) 1099.81

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