TABELL'S MARKET LETTER

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This letter has expended a fair amount of space in its last few issues documenting what we take to be the rather dismal near-term outlook for equity prices. Expertise in technical analysis is hardly a requirement for recognizing the fact that the past week's rather dreary performance could hardly be said to be indicative of any sort of imminent reversal. It is possible, however, to take what is, in one sense, an optimistic view of the current technical picture. That view arises out of the fact that anticipated weakness in the case of many stocks will produce the broadening of longer-term base patterns. This is in line with our presently-favored market scenario, calling for a major low, one of cycle dimensions, to be made during 1982 -- in all probability during the first half of the year.

If our assumption is correct, it can hardly be improper, even at this early stage, to attempt to look ahead and try to single out what impelling forces might cause a rise off this anticipated low. Candidates for the cause of such impetus are not, at this point, all that easy to find. We have in mind, however, one such possible force, the importance of which, we feel, has been insufficiently recognized insofar as financial markets are concerned. That force is the I.R.A., not the terrorist organization, but the Individual Retirement Account.

Our suggestion of insufficient recognition is not meant to imply lack of attention. Indeed the only Americans currently unaware that something called an I.R.A. now exists are those who have managed somehow totally to insulate themselves from the modern advertising age. Media of all flavors have been chock-a-block with ads, most of them demonstrating how a 25-year-old, who can manage to scrape together $2000 per year, can turn himself into an instant multimillionaire upon reaching retirement. They are, of course, by and large lies.* The individual retirement account, despite the fact that it is designed to be a mass-market product, is probably one of the more complicated financial instruments currently available. It is, as the ads only marginally point out, entirely dependent for its end result on the level of investment return that will obtain over a long period. Anyone possessing a crystal ball which will forecast the level of money rates over the 40 years between now and a 25-year-old's retirement is the owner of a rare piece of equipment indeed. The I.R.A. also, to suggest just one more insufficiently emphasized fact, is an instrument for tax-deferral, not tax avoidance. The value of this tax deferral is an immensely complex function of the age of the individual, future tax rates and a host of other factors. The problems of calculating true anticipated return for an I.R.A., we think, are sufficiently complicated to provide fuel for MBA dissertations for the next ten years.

None of the above is to be taken as an argument against the I.R.A. Indeed, we heartily endorse it as one of the more exciting programs to become available to the individual in recent memory. Like most complexities, it can be reduced to basic principles. George Goodman summarized the entire thrust of the U.S. housing program of the past forty years in the sentence, "The government wants you to buy a house". The I.R.A. can be summed up in the sentence, "The government wants you to save money."

In the first instance, it has paid -- and very generously -- to do what Uncle Sam wanted -- as anyone owning residential real estate is quite aware. We think that for most individuals it will be equally profitable to follow Uncle's dictates as far as retirement planning is concerned. The individual in even a modest 30% tax bracket is, in effect, being handed $600 as an incentive to start an I.R.A. this year. Our own expectation is that this incentive will not be widely ignored.

Which brings us to the effect on financial markets. Some 90 million currently employed Americans are presumably eligible to sock $2000 apiece into plans this year, which, if they all took advantage of the fact, would result in an investment of $180 billion. Now we are fully aware that 100% participation is wildly unrealistic, but what is the proper estimate? If it is only 10%, $18 billion is a not-inconsiderable sum. Furthermore this 'x'-billion-dollar-infusion is a sum that is likely to rematerialize this year and the year after that. In addition, the interest being accrued on this sum remains temporarily untaxed and therefore also available for future investment. The belief that such sums can become available for deployment with no effect on financial markets is, in our view, incredibly naive. Yet we have seen few models that attempt to take the I.R.A.'s investment effect into account.

More complete discussion of possible I.R.A. effects must await future issues of this letter. In our view, however, those effects could well be considerable enough to provide part of the fuel for the next major upswing in the prices of financial assets.

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AWT:rs

Dow-Jones Industrials (12:00 p.m.)	846.18
S & P Composite (12:00 p.m.)	115.94
Cumulative Index (1/14/82)	1069.73

*Lying is herewith defined as the placing of questionable assumptions in footnotes at the end of the text.