

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

Subject: Goldwater and the Stock Market

On most segments of the economy, I'm not bashful about placing my bets on fairly specific predictions. But on the unpredictable stock market, I retreat to "it depends" (except for today's markets -- which went up 2.67 points on the Dow-Jones). And that's how I have to answer a question about Goldwater's longer-run impact on the market. The net result depends on the answer to 3 questions that are not purely -- or even largely -- economic:

1. What do investors think Goldwater's domestic and foreign policies would be, and how do they think these policies would affect corporate profits?
2. How do they rate his prospects for election?
3. To what extent has his nomination already been discounted in stock prices?

1. Goldwater's Policies and Their Effects

- a. If investors were even reasonably good economists, they would interpret
 - his fiscal policies as bad for business;
 - his foreign policies as threatening the prospects for peace;
 - his general rashness as leading to instability.

All of these would be bad for profits, and therefore bad for the stock market.

- b. But many investors are not good economists. And because many investors share Goldwater's prejudices, they may emotionally feel that his policies must be good for business profits. This feeling would tend to raise their valuations of stocks.

2. Goldwater's Prospects for Election

- a. I assume that Goldwater's chances for election are read by investors -- as by everyone else -- as miniscule. Therefore the event of his nomination would seem to assure a Johnson victory.
- b. Whatever investors may think the effects of Goldwater policies would be, they have shown already what they think of Johnson policies by what has happened to stock prices.
- c. This would suggest that the Goldwater nomination might raise security prices by seeming to assure a Johnson victory.

3. Expectations Regarding Goldwater's Nomination

I would assume that investors have already discounted the probability of Goldwater's nomination, and that most of whatever effect it would have on stock prices has already been felt.

Walter W. Heller