

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 4, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Goldwater's Impact on the Stock Market -- Chapter 2.

1. Our initial memo on this subject indicated that there might be a financial backlash if the stock market began to take Goldwater's chances seriously.
2. Sylvia Porter told me this noon that the uncertainty created by Goldwater's candidacy is already causing market hesitation:
 - it's not that the market thinks, as of now, that Goldwater has much of a chance,
 - but it's assumed that in the ups and downs of the campaign there will be times when Goldwater's chances look brighter -- which could cause the market to break sharply, and the way to get ready for that is to sell now.
3. Sylvia bases her conclusions on close questioning of a number of key people in Wall Street, who agree unanimously with this diagnosis. (She doesn't claim that her sample is representative, but it is enlightened.)
4. Sinclair Armstrong, Executive Vice President of United States Trust (and SEC Chairman under Ike) told me confidentially last week:

"For the first time in our memory, people are asking apprehensively whether we think the Republican candidate has any chance of winning -- because they figure his winning would be 'deflationary' for the market and the economy."
5. Here is what Sylvia's checking in Wall Street turned up:
 - After Goldwater's nomination, many mutual funds and trusts began to cut back on stock buying, putting their money instead into certificates of deposit, government bills, and so forth.
 - She was told that while a Goldwater win doesn't seem possible, if it did:
 - "Wall Street might panic at the prospect."
 - "Business would be inclined to hold back on their plant and equipment spending."

- One man told Sylvia: “We all believe in the balanced budget, publicly, just like we’re publicly against having a mistress -- but privately, it’s another matter. Goldwater’s budget policy would hurt the economy and business profits.”
 - Sylvia added this personal note: When she asked her broker about her own list of securities, his reply was unhesitating: “The uncertainty is so great, let’s get comfortable -- let’s back away.”
6. Sylvia’s sources reflect the same kind of thinking that The New Republic reported last week, mainly based on the attached commentary by Bradbury K. Thurlow.
 7. We will continue to keep our feelers out on this situation.
 8. Meanwhile, it might be healthy to get some respected columnist to give broader circulation to the adverse Goldwater impact on the stock market and the economy. (It might heighten market fears temporarily, but it would help put the blame where it belongs).

Walter W. Heller

P.S. Since writing this, I find today’s market went down about 7-1/2 points (Dow Jones Industrials) and now stands at 832.77.