AOB NEWS
The Journal of the Association of Objectivist Businessmen

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economist whose standard of economic evaluation is objective rather than the subjective/ intrinsic views that dominate present-day economic analysis.

I am grateful to Richard Salsman who agreed to be interviewed so that I might offer to our *AOB News* audience his economic insights and evaluations of the state and climate of the U.S. economy and markets.

Richard is Senior Vice President and Senior Economist at H.C. Wainwright & Co. Economics, Inc., an economic forecasting and investment strategy firm in Boston. His monthly investment analysis for Wainwright, published under the title series "The Capitalist Perspective," is available for $1500 per year (to subscribe, call (800) 655-4020). He is the author of *Breaking the Banks* and *Gold and Liberty*. His work has appeared in *The Wall Street Journal, Forbes, Barron's, AOB News* (which he founded in 1989) and *The Intellectual Activist.* He is the founder and past president of the Association of Objectivist Businessmen, and a frequent speaker at Objectivist conferences.

The following interview took place in early December 1997.

Q: Richard, in the past year the stock market reached new highs nearly every day. The Dow is now holding around 8000, up almost one hundred percent from three years ago. Is one justified to feel apprehensive, to think, in effect: the higher it goes, the farther it'll fall when the inevitable crash comes?

A: Not at all. The apprehension is unwarranted. Paper money regimes usually make

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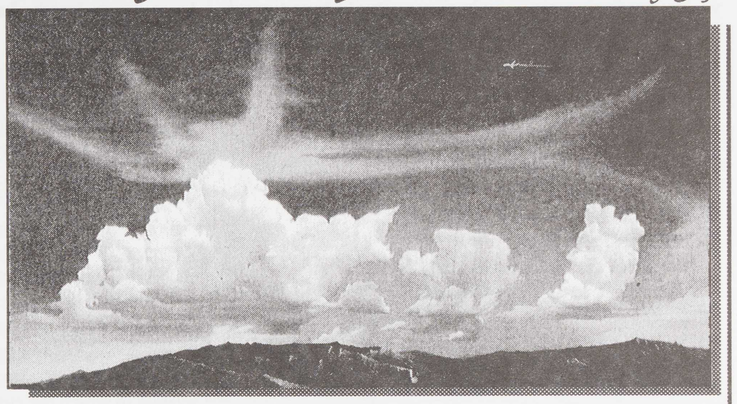
Mind Over Matter
by Sylvia Bokor



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the prices of most things go up continuously. So there are "new highs" on prices being reached for millions of goods and services every day. But prominent officials like Alan Greenspan bolster the Keynesian view of the market as a "casino" run by the "fear and greed" of unruly speculators by attributing market advances to "irrational exuberance." In fact, the stock market is a realistic integrator of a vast array of information and a rapid-fire calculator of the value of business enterprises. If stock market indexes were adjusted for inflation, you'd find that the market effectively fell or stagnated from 1968–82, reflecting the high inflation of the 1970s. Not until the late 1980s did the stock market finally return to the real value attained in 1968. Today there is no "false prosperity" allegedly creating a bubble. The economy is sound, although it's been better. One should not expect some "inevitable crash," just because the market has risen. This is no "bubble." The price-to-earnings multiple is a popular measure of the value investors place on future earnings. It's about 20 times earnings today, but it's been that high, without engendering a crash, in other stable, low-inflation periods, like the 1950s and early 1960s. That multiple was paltry—below 10 times earnings—in the inflationary and volatile 1970s. The big threat to this state of affairs comes from Mr. Greenspan and the Fed, which threaten to raise interest rates to stop "excessive" growth and job creation, which they falsely considers to be inflationary. Another threat would be a renewed trade war with Japan leading to a weaker dollar. Recent experience reminds us that currency devaluations, too, are destructive.

Q: What caused the upward surge in the market? Does it reflect a fundamentally sound, healthy economy or not, and why?

A: The main underpinnings of stock market values are corporate profits and dividends. If both are rising, while inflation and interest rates are low or falling, stock prices will rise, and legitimately so. Indeed, that's what we've had in recent years. The economy is now relatively healthy with decent productivity growth, although we've seen higher growth in previous, freer periods of history. The principle is: business prospers best amidst stability. When business can plan and invest long-range, it can build more advanced technology, it can boost productivity and the standard of living. There's been a general lessening of the politically engendered instability so common in the 1970s; that's an improvement the market recognizes. I believe one reason for