Tariff Reality Ignites Stocks, Affirms Dow Theory Bull Market Signal

The rebound in stocks on Wall Street on Monday and Tuesday that followed last week's sell-off was triggered by the reality that Trump's tough talk on tariffs was little more than an opening bid to get China's attention. It did, as was noted by Trump's Treasury Secretary Steven Mnuchin: "We're having very productive conversations with them. I'm cautiously hopeful [that we can] reach an agreement."

It helped that over the weekend investors began to understand that Trump's threat, even if fully applied, would have very little impact on the overall economy. Part of the initial confusion was the media's constant repetition that Trump intended "to impose at least $60 billion in tariffs on Chinese imports" as the *Washington Post* expressed it. Whether deliberate or not, the *Washington Post* should have said that Trump intended "to impose tariffs on at least $60 billion worth of imports, particularly imports of steel and aluminum."

That's a vastly different, more accurate and less concerning statement. Trump's original plan is to impose tariffs of 25 percent on Chinese imports of steel and 10 percent on Chinese imports of aluminum. Simply put, those tariffs, if imposed despite Mnuchin's "hope" that an "agreement" (read: compromise) can be reached with the Chinese, would have negligible impact on American end users.

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Here's the math: Assuming that steel and aluminum imports from China are $30 billion each, then the total tariffs imposed on those imports are $3 billion on aluminum and $7.5 billion on steel, for a total tariff of $10.5 billion imposed on American importers. This is much less than $60 billion, and experts have translated the additional costs of them to American purchasers of new vehicles of about $300 per new vehicle. Since most vehicles are financed, with terms extending out to seven years or more, the increase in the monthly payment to an American buyer of a new car partially made of Chinese aluminum and steel is infinitesimally small.

The rebound, as noted by *The New American* last week, also affirmed that, according to Dow Theory, the bull market in stocks that began in 2009 remains firmly in place.

Granted, it was a near thing. Dow Theory focuses on the market action of the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJT). Friday's continuing sell-off pierced the floor for the DJIA established by that theory, with the transportation index just touching the floor but without piercing it. If they had both gone below that floor, it might have precipitated a continuing sell-off by those who adhere to Dow Theory.

As it was, the sell-off triggered all manner of concern by people who should know better than to believe the bull market is over. One of those is a perennial bear, the well-known "legendary" investor Jim Rogers, who heads up Rogers Holdings, Inc. He's been calling for a "top" in the market since last September when he told his audience that the next bear market will be "horrendous, the worst [ever]."

The market moved higher, and in November Rogers reiterated his concerns that the market was “overdue” for a massive correction. Again in February, following the sell-off in stocks, Rogers announced, “When we have a bear market again — and we are going to have a bear market again — it will be the worst in our lifetime.” Rogers is 76 years old, and he’s seen some.

But the market rebounded from those February lows, testing the Dow Theory as noted, as well as his patience. Rogers expanded on his warning: “I’m extremely concerned. I’ve read enough history and been through enough markets to know that trade wars are usually a disaster.”

Assuming that despite the fact that the rebound on Monday, which is continuing into Tuesday, has happened and the bull market in stocks is now over, just how bad could that bear market get? Ned Davis Research reports that since 1900 there have been 36 bear markets, averaging 403 days in length and losses in the Dow of 31 percent. Applying that to the top in January, a new bear market would take the Dow all the way back to where it was on Election Day in November 2016.

Although painful, that would then set the stage for a rebound in stocks which, also according to Ned Davis, would take a little more than three years to regain all the ground lost.

Underlying all of this, it scarcely needs mentioning, is the “new economy” that has been unleashed thanks to tax cuts (both personal and corporate), massive reductions in regulations (estimated to be 12 regulations cut for every new one promulgated), and the “tax holiday” on overseas profits. Those profits have been waiting for just such a time as this: After taxes, 85 percent of the billions now being repatriated are going into new capital investments, expanding the economy and new opportunities for workers who are coming off the sidelines by the thousands.

The stock market is a forecaster of the future. With corporate profits expected to jump by 15 percent or more year-over-year, it would take more than just a tiny tariff, imposed by the president to protect vital U.S. industries, to derail it. What the sell-off in stocks did last week is give investors a “buying opportunity” to purchase shares of American companies at a 10-percent discount.

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