

January 4, 1945

TECHNICAL MARKET ACTION

The market reached new high territory on Thursday with all three averages hitting peak prices for the move. The advance, which started from last Wednesday's lows, has been paced by the two laggard groups, the steels and the coppers. The momentum of the rise has been extremely rapid with the industrial average showing a gain of 7.07 points in the last six trading days, while the rails have advanced 3.01 points in a like period.

The writer, in the past, has used a technical market indicator that has been extremely accurate in forecasting buying and selling points in the intermediate market swings. Today this indicator signalled a sell indication, the first such signal in a long time. However, in the past the signals have usually been a bit premature and have occurred before the actual high or low was reached. In addition, it must be borne in mind that it is a purely mechanical device and the fact that it has worked well in the past is no indication of its future performance.

However, there are other indications that the market may be temporarily near a top. The various market averages built up base formations in the consolidating period of late 1943 and early 1944. The base count indications set up during that period have in most cases been reached. For example, the count on the Dow-Jones industrial average was 153-156. This compares with today's high of 155. The count on the New York Times combined average indicates 105-109. Present prices are around 108. While the rail average indicates a long term 65-70, the advance has been rapid in the past month and a technical correction may be overdue.

While the present, with its many diverse trends, may be an unfortunate time to be thinking in terms of a market average rather than in terms of individual stocks, the weight of technical evidence suggests that a selling attitude should now be taken with the ultimate objective of assuming a sideline trading position in the hope of reacquiring selected issues on price dips. This advice is given on a shorter term basis and signifies no change in the writer's long term bullish opinion.

Suggest lightening trading accounts to a 50% liquid position. The writer has recommended 53 issues for intermediate term trading purposes. Profit-taking is advised on the 28 issues enumerated below. The remaining 25 issues are to be retained. Their formations suggest either the possibility of further appreciation or nearby support levels.

It may take a week or two before the market completes its top formation. Such a period is usually accompanied by considerable irregularity and wide price gyrations in individual issues. Strength in issues still held should be used for liquidation.

The opinions expressed in this letter are the personal interpretation of charts by Mr. Edmund W. Tabell and are not presented as the opinions of Shields & Company.