

Technical Market Action

When the industrial average broke the 199 support level on July 23rd, the intermediate trend was indicated as down. The next day, on July 24th, we issued a letter which we are reprinting in full because, after over a month, the pattern outlined then still applies now.

The letter follows:-

"By breaking the 199 support level on Tuesday, the intermediate trend is now indicated as down. At 195, the industrial average has now reacted approximately 18 points from the May top. How much more decline is indicated? The question is not easy to answer. There are three possibilities. (1) Count indications point to the 194-191½ area as the first support level. At Tuesday's low of 194.79, the average was close to that level. If the market turns dull and this range holds, and the rail average holds above 60, the bottom might be near present levels. (2) The next support point is the February low around 185. If this point is reached by the industrials, it would seem that the rail average will also break 60 and in that event would indicate a reaction to 57-54. (3) The third possibility is that the February low will be broken. In that event, the indications would be 182-174 on the Dow-Jones industrials, 57-54 on the rails and 126-120 on the New York Times average. The February low on this latter average was 129.

"From the action of individual issues, would be more inclined to favor the second and third possibility, although the first cannot be entirely ruled out. Several individual issues have broken out on the downside and indicate lower levels. Prominent in this category are automobiles and auto accessories. Other groups, including steels and metals, have held above support points but are very close to giving intermediate down trend signals. The picture is uncertain enough to warrant a sideline position in all intermediate term trading accounts until the pattern clarifies.

"As for the long term trend, technical patterns still indicate higher levels after the intermediate correction has passed. This is particularly true of the durable goods issues and rails. The primary bases on these groups indicate that prices considerably above the 1946 highs should eventually be seen. Would not disturb long term holdings."

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As it turned out, the first possibility worked out at that time as the market made a low of 194.33 on July 25 and then rallied to 205.01 on August 14th. Last week the market reacted to 194.53 and tested the July low. If this point holds and the average sells above 205.01, the intermediate trend would be indicated as up. If the July low is penetrated, such action would indicate a continuation of the intermediate decline and point to the second and third possibilities outlined above.

EDMUND W. TABELL

SHIELDS & COMPANY

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<u>Closing</u>	
Dow-Jones Industrials	196.99
Dow-Jones Rails	60.84
Dow-Jones 65-Stock	72.99