

## Technical Market Action

As suggested in yesterday's letter, the lows of Wednesday marked an important trading turn in the market. Thursday's market was strong and on volume of 2,360,000 shares advanced \$4.46 on the industrials and \$1.34 on the rails. The rally from the Wednesday lows to the Thursday's high was \$8.17 on the industrials and \$3.60 on the rails.

Just how far the present rally will carry is problematical. Rallies from an oversold market most always occur rapidly and without the formation of prior base pattern. From the May high of approximately 213 the market reacted 39 points to 174. A third retracement would carry to the averages back to 187 while a one half retracement would mean a rally to about 193. The first upside resistance is around 185 so would be inclined to select the 185-190 area as the present rally objective.

After this rally reaches its top, the normal expectation would be a secondary reaction and testing of the Wednesday low of 173.64. A testing of the low would not necessarily mean a reaction back to the low but rather a reaction that holds above the previous low. As an example, if the market reaches 187 on this rally, a reaction back to 179 would be a testing of the low. Then if the market rallies above the 187 figure a change in the trend would be indicated.

Waiting for such a signal may be quite a lengthy process and would mean buying at a considerable distance above the lows. In fact, that is the main disadvantage of the Dow theory. Only after the average had declined 27 points did the Dow theory signal a bear market by breaking the February low. It would be ironic if it turned out that a day after the bear market was signalled, a new bull market started. A comparable situation occurred in 1939 when approximately one week after a bear market signal was given a new bull market started under the Dow theory.

Rather than wait for the type of confirmation outlined above, would attempt to pick the bottom of the current decline. Believe that it is an even possibility that the lows of Wednesday were the lows of the decline. These lows were approximately the same as the maximum downside price objectives outlined in our letter of July 24th. Further confirmation is given by the action of the New York Times and New York Herald-Tribune averages. The March to May top formations suggested a decline to 120 on the Times Average and 122 on the Herald-Tribune. At Wednesday's lows, approximately 119 and 121 were reached.

At Wednesday's lows, a great many individual issues also reached their support levels. Would be inclined to watch the action of individual issues from here on rather than the averages. Even if the averages at some subsequent date react below Wednesday's lows, believe there are many individual issues that reached or approximately reached their lows on that date. During the next week, will endeavor to list the more important of these issues.

EDMUND W. TABELL

SHIELDS & COMPANY

September 5, 1946

Closing

Dow-Jones Industrials	181.18
Dow-Jones Rails	53.79
Dow-Jones 65-Stock	66.42