Technical Market Action

Weakness in commodities, with both cotton and wheat off the allowable limits for the day, caused weakness in the market on Thursday. Prices rallied from the mid-day lows and at the close, the industrial average lost $2.59 and the rails were down $1.05 at 171.76 and 47.59, respectively. Volume at 1,310,000 shares was below the average of the week.

While the decline came somewhat more rapidly than expected, it has still held within normal corrective bounds. From the low of 161.61 reached last Thursday, the industrial average rebounded to a high of 177.05 on Wednesday of this week. This is a rally of $15.44 in five trading days. This is an extremely rapid advance which, as mentioned in Tuesday's letter, left the market somewhat vulnerable from a technical viewpoint. At Thursday's low of 170.47, the industrial average had reacted $6.58 from the high or a retracement of approximately 42% of the $15.44 advance.

Another technical element that might be mentioned at this time is the theory of gap openings. This subject is extremely technical and the interpretations of it vary widely according to the different methods used. However, the averages opened with a gap on Tuesday caused by the fact that the high of the previous day was 170.60 while the low of Tuesday was 173.08 - thus leaving a gap of $2.48 between the ranges of the two days. Thursday's reaction to a low of 170.47 closed this gap. In some circles, the theory is that these gaps must be eventually closed. From this viewpoint, the rapid closing of the gap is constructive. However, it might also be argued that a different school of thought may be disappointed by the fact that the gap was not of the "breakaway" type that usually denotes an extremely sharp rally before the gap is closed at some remote future time. The situation is further complicated by the fact that the average also opened with a downside gap on Thursday when the high of the day was 173.61 against a low of 174.03 on Wednesday - thus leaving a smaller gap of 43 cents. This fact is also subject to different interpretations. It could be argued that this gap should be filled shortly or that possibly the gap, together with that of Tuesday's, denotes an "island reversal", leaving the ranges of Tuesday and Wednesday detached from the main formation. This would be interpreted bearishly. As I said before, the subject is extremely complicated and of doubtful technical value and, at the moment, I am sorry I brought it up.

Of greater value, may be the fact that individual situations are able to move higher against the trend as was evidenced by Pepsi-Cola on Thursday. The stock moved up two points in a reactionary general market. This is quite the reverse of the action of the past few months when individual issues were selling off in days when the general market was advancing. This latter action was one warning indication of the decline. Possibly, the action of Pepsi-Cola may be a harbinger of better things to come.

Still believe the market can be bought on soft spots. Particularly like American Rolling Mills, Bethlehem Steel, Certain-teed, Doehler-Jarvis, International Minerals, Penn-Dixie Cement, Revere Copper, Reynolds Metals, Union Bag and Wheeling Steel.

EDMUND W. TABELL

October 17, 1946 SHIELDS & COMPANY

Closing

Dow-Jones Industrials	171.76
Dow-Jones Rails	47.59
Dow-Jones 65-Stock	61.72