Technical Market Action

Both stock and commodity prices have recently undergone extremely erratic and volatile price movements. In the commodity field, in particular, these price movements have been wide and rapid. As a result, most investors and traders are utterly confused as to the current trend of prices, not to mention the intermediate trend of the next few months or the longer term course of the next year or so. Perusal of newspaper headlines and expressions of opinion by radio commentators only add to the confusion. Even an attempt to evaluate the fundamental background of the economic situation as a whole, or as applied to individual industries, leads to conflicting opinions. What affect will the sharp rise in commodity prices have on the heretofore improving Labor situation? Will the commodity rise continue or will it result in an eventual sharp and rapid drop? What affect will recent developments in England have on our price structure? What will Congress do about taxes and Labor legislation? Why do higher earnings and increased dividends have little or no affect on security values? What is the answer to these and many other questions of equal importance? The answer is not easy to find as is evidenced by the diverse opinions of economists, industrialists and government officials. The investing public seems uncertain and apathetic and inclined to the pessimistic side. Then what is the answer? Current events and statistics seem to present a confusing pattern. Perhaps a look at the technical pattern of the market will furnish a clue to the probable course of prices.

Obviously, the technical approach will not furnish the direct answer to any of the above questions. It will only reflect the pruchases and sales of an untold number of investors and speculators, large and small, informed and uninformed, domestic and foreign. Their opinion of developments and the trend of the market will be reflected in the supply and demand patterns of the various averages and of nearly fifteen hundred individual stocks.

The first conclusion to be drawn from the technical pattern is that the selling pressure has been declining since October. The recent reaction has shown only a moderate increase in downside volume. On the other hand, buying interest has not shown a comparable rise. The public is not willing to sell but neither are they interested in buying. This is evidenced by the low volume and professional character of the market. Such a background is hardly one to indicate a drastic drop in prices. The only development that would change this opinion would be a sharp increase in selling pressure. This has not yet occurred. However, until buying interest revives, no extraordinary rise is indicated, except in special situations.

The second conclusion to be drawn from the technical pattern is that the market, as reflected by the Dow-Jones industrial average, in the early part of 1946 built up a long distributional phase between, roughly, 213 and 195 in the averages. However, the majority of downside objectives for individual issues, as outlined by the extent of their distributional patterns, were reached in the September-January decline. Since that time, a great many individual issues have built up formidable re-accumulation areas in the 175-160 zone. At least, it would appear that recent upside penetrations by individual issues and the averages, indicate that such is the case. In that event, substantially higher prices are indicated for selected issues.

The third conclusion is that the distributional area between 213 and 195 and the supposed accumulation area between 175 and 160 will present tremendous areas of resistance for any subsequent rise or decline. Both areas are five months in duration with volume of over 120,000,000 shares. It would appear probable that, for a long while, these areas will be entered only momentarily, if at all, in periods only of extreme optimism or pessimism.

These conclusions to be drawn from the technical action of the market lead to the following.

(1) The market will remain for a long time, except for exceedingly brief periods, in a range between, roughly, 175 and 195.
(2) The market will be extremely selective, with sharp upswings in selected issues and lethargic action in others.
(3) At the moment, prices are nearer their lows than their highs. The probabilities are that the 1947 low point has already been reached (170.13 in January)

As a result we continue to advise retention of recommended issues bought in the lower part of the 175-160 area and advise additional purchases on soft spots.

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March 3, 1947

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