Technical Market Action

It seems that the fashionable thing to do these days is to issue dire economic forecasts. These pessimistic predictions are a dime a dozen and are to be found in your daily newspaper, in radio broadcasts, in your weekly magazine, in trade journals, and in government publications. These warnings of things to come emanate from such high sources as the administration, which, incidentally incorrectly predicted vast unemployment shortly after VJ Day, to such lowly sources as the night club owner who, after a period of wartime business, fears the approach of normalcy.

Occasionally, some brave souls venture the opinion that stocks are cheap in relation to everything else, but the preponderance of thought seems to be on the other side. Seldom has there been such unanimity of opinion that we are facing a depression or a recession, or what not. The only argument is whether it will be now, or in mid-1947, late 1947 or early 1948. Can such prognosticators be wrong? It could be that they are.

But even if they are right, these purveyors of gloom seem to forget that the stock market has already had a substantial correction in anticipation of something that has only occurred in part. From its May, 1946 high to the October 1946 low, the Dow-Jones industrial average has reacted roughly 25%. However, individual issues have lost 40% to 60% of their value. Some issues, such as those in the distilling group, have lost as much as 70% and have seemingly partially predicted the possibility that we are to become a nation of teetotallers.

The reasons for their bearish predictions are legion. Commodity prices are too high; profit margins are too high; inventories are too high; labor will get all the profit; we have excess productive capacity; current earnings are non-recurrent; the rest of the world is broke. This reasoning is not new. It was the reason for the drop from 213 in the industrial average in May 1946 to a low of approximately 160 in October 1946. Yet in September when the averages were around 168, this letter ventured the opinion that the 170-160 area was a long term buying range. Since that time this area has held on the downside, and the averages have been as high as 185. Now, seven months later, the averages are still above 168.

One of the main arguments of the bears is that there is always a depression after every great war and that we are following the 1921 pattern. Let's carry that thought forward. The first World War ended in November 1918 and the Dow-Jones industrial averages reached their high approximately one year later in November 1919 in the averages. The second World War ended in August 1945 and the averages made their high approximately nine months later in May 1946 at 213. In the first World War the averages started a decline in November 1919 that ended nineteen months later at approximately 65. If that pattern were followed, the low in the present market would occur around November 1947. However, in the 1919-1921 market, roughly 90% of the decline had been reached approximately 13 months after the high, a time period roughly corresponding to the present. If we allow for a further period of backing and filling, the averages might work slightly lower by late 1947. If this occurs, there is no reason why we should not carry the analogy forward to its ultimate conclusion. If the pattern persists, the market should reach its low, only a small percentage below present levels, some time this year and start a tremendous advance into 1955. Based on the 1919-1929 pattern, the market would advance approximately 600% from its 1947 low. Figuring the low at 160, this would mean approximately 960 in the averages by 1955.

This is not an attempt to forecast such a price projection into 1955, or even into November 1947. The thought is merely to carry through the 1919-1929 pattern to its ultimate conclusion. In that event, a time correlation would indicate that we are close to the lows at the present time and a further correlation would indicate a tremendous bull market later.

Continue to recommend the purchase of selected issues in the 170-160 range for eventual substantial price appreciation.

EDMUND W. TABELL

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Closings

Dow-Jones Industrials	168.83
Dow-Jones Rails	44.56
Dow-Jones 65-Stock	59.90