

Technical Market Action

The market resumed its downtrend on Friday and closed \$2.92 lower at 164.96. The close was near the day's low of 164.46. The rail average was also off sharply at 42.18 down \$1.06. Volume totalled 1,430,000 shares for the day. The volume in the last hour was 750,000 shares or more than half the total volume. Some support came into the market during the late tape and the leaders particularly held around the day's lows on heavy trading. It will be interesting to note if that support continues.

The industrial average at the closing level of 164.96 was only \$1.84 above the October low of 163.12. Based on intra-day lows, however, Friday's intra-day low of 164.46 compares with the October low of 160.49, almost four points away. Some Dow theorists use the closing figure while others use the intra-day high or low computation. The rails, which penetrated into new low territory in April, reached a new low.

There has been so much discussion about the October lows and whether they would hold or not, that possibly the significance is somewhat exaggerated. Under the Dow theory, a penetration of a previous high or low indicates a continuation of the bull or bear market. It gives no indication of the extent of the decline. For example, in February 1946 the industrial average reached 207 and reacted to 185. In May 1946 it penetrated the previous high and confirmed the bull market. The bull market high was made shortly after at 213, only 6 points higher. How significant would be a penetration of October lows? A glance at the technical patterns of the various averages might give us a clue.

The industrial average built up a top distributional area in the early part of 1946 that indicated a reaction to 169-167 if 185 were penetrated. The averages went slightly lower to 160.49. After that, the market fluctuated in the 165-175 range until late December and then ran up to 185. Another distributional area was built up in the early part of 1947 that indicates a reaction to 164-161. If this holds true, the October low would hold. Some doubt could be cast on this thought, as the averages actually went 9 to 7 points below their October indication.

A similar pattern in the rail average indicated a reaction to 46. Here again the count was a bit short as the actual low was 44. The early 1947 top indicates 42-41 which is fairly close to present levels.

The New York Times average presents a slightly different pattern. The early 1946 top was rather difficult to interpret and indicated a wider reaction range of 107-95. The actual low was 106.93. The figures on this average for Friday are not available at the moment but is very close to the 106.93 low. The early 1947 top indicates 100 if 106.93 is decisively penetrated.

The Herald-Tribune average indicated an eventual low of 112-109. The October low was 115.92. Friday's figure is not available, but would venture the opinion it is fractionally below the October low. The early 1947 top indicates about the same range.

The Dow-Jones 65-Stock Composite average indicates 55 1/2 - 53 1/2 if the October low slightly below 58 is reached. Friday's close was 58.14.

Breaking of the October lows would undoubtedly bring in stop loss selling. However, it could be over very rapidly and the averages could rally back quite sharply after the liquidation is over. Several times in the past, after a long line formation such as the September 1946-May 1947 range, the averages have penetrated the lows and after a few points reaction have rallied back into the range. Based on the technical indication of the various averages, would expect this to be the case in this instance.

This is also borne out by the action of industrial issues. The downside objectives of individual issues, compiled on October 14th, indicate that most of them are now being reached.

Still believe the 170-160 area will prove to be a long term buying range, even if very temporarily violated.

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The opinions expressed in this letter are the personal interpretation of charts by Mr. Edmund W. Tabell and are not presented as the opinions of Shields & Company.