

Technical Market Action

As stated previously, believe the wide trading range of the past twelve months has been a period of slow re-accumulation with stocks passing from weaker into stronger hands. My reasons for such a conclusion are based entirely on technical considerations. They are (1) At the lows of October 1946 and May 1947, the averages and the great majority of individual issues had just about reached the downside objectives outlined by the distribution areas of early 1946. (2) The tremendous turnover in the 170-160 range of the Dow-Jones industrials and the testing of this level on at least half a dozen different occasions, establishes this area as an extremely strong support zone. (3) Since the decline of September 1946, each subsequent decline has been on a lessened volume of trading indicating a gradual drying up of liquidation. (4) The technical action of individual issues confirms the implications of the general market action. Numerous issues reached their downside objectives almost a year ago, have built up substantial base patterns and have penetrated these areas on the upside. The oils and some of the chemicals are outstanding examples of this type of action. Other individual issues have built sizeable accumulation areas and are near upside breakouts. Others still may require some further backing and filling. In the majority of cases, the base areas that have been built up are substantial and indicate considerably higher levels on an upside penetration. There are other technical reasons that substantiate the belief that the next important move will be sharply higher, but the four given above are the most important.

Will the market work much lower at this time? I do not believe the market will work much below last week's lows of 174.02 and 46.91. The decline from the July highs has amounted to a correction of approximately 52% of the advance in the industrials and approximately 44% in the rails. The market has been in a declining phase for the past seven weeks but the pace of the decline has been much slower and the volume much lower than in the previous ten-week advance from the May lows to the July highs. Believe the odds favor the lows of last week being the lows of the correctionary decline. In any event, would expect the area between here and 171 to be a buying zone.

When will a sharp upward move start? The answer to that depends on the intangible element of public psychology. The stage is all set for a sharp rise. The necessary technical patterns and base formations have already been built up. A large short interest and plenty of potential buying power is also present. Many stocks are selling at ridiculously low prices compared with present earnings. The background is inflationary. The one missing element is a public willing to buy securities. Just what is needed to start the latent buying power is not known, but after over a year of bearishness it would seem reasonable to expect a nearby change in the present mood of discouragement and fear.

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SHIELDS & COMPANY

Closings

Dow-Jones Industrials	175.30
Dow-Jones Rails	47.69
Dow-Jones 65-Stock	62.92

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