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TABELL'S MARKET LETTER

From May 5th to August 1st, a matter of sixty-six trading days, the Dow-Jones industrial average moved in a wide trading range of 16½ points. From the May 5th high of 177.18, the market declined to a low of 160.62 on June 14th. This was a decline of 16.56 points in thirty-three days. From the low of 160.62 on June 14th the market advanced to a high of 177.17 on August 1st. This was an advance of 16.55 points in thirty-three trading days. Thus, the entire thirty-three day decline of 16½ points was recovered in the same number of trading days. This is unusual as the rate of decline is usually more rapid than the rate of advance.

As we look at the long term picture, rather than the day to day, or even month to month fluctuations, this quick rebound from the 160 support level has considerable significance. The 160-164 support level has now been tested on four widely separated occasions, namely, in October 1946, May 1947, February 1948, and June 1949. The 160-170 area, which I have consistently considered a long term buying area, has been entered in eleven of the last thirty-six months.

From September 1946 to November 1948 business and industry were booming with the F.R.B. index of production moving in a range between roughly 180 and 195. (100 = 1935-1939 average). The stock market declines into the 160-170 range of the Dow-Jones industrials during this period were the result of fears that a decline in business was imminent. This decline in business has now occurred with the F.R.B. index dropping in seven months from a November 1948 high of 195 to an estimated level of 165 for July, 1949. In spite of this decline in business, the market has again met support at the 160 level of the Dow-Jones industrials, the low of a narrow trading range (15%) of three years.

This action takes on an added significance when we read the business forecast of Dr.C.F.Roos of the Econometric Institute in the August 1st issue of Newsweek. The record of Dr. Roos and his staff in forecasting the business trend over the past few years has been considerably above that of the average economist. He believes that the F.R.B. index will reach its low for the next ten years in either July or August of this year. After a rise into the later part of 1949, he expects another dip in the first six months of 1950. His opinion is that this decline will hold slightly above the July-August lows. He then anticipates a rising trend until 1953-1954, when another dip in business is expected. The decline at that time,he believes, will hold above both the lows of 1949 and 1950. From there on, his projection indicates a rising trend to 1960. All of this is subject to an allowance of 5% to 10% for error.

The opinions of Dr. Roos coincide with my long term technical pattern of the stock market. I believe that the narrow trading range of the past three years is a long accumulation period with stocks passing from weaker into stronger hands. The accumulation may not yet be completed and the averages may remain within the area of the last three years for a longer time. However,I made the prediction almost a year ago that the pattern now being built up will eventually result in a price level in the stock market above the 1929 high of 386 during the period between 1955 and 1960. I confidently repeat this prediction again.

For the near term,the market has advanced approximately eighteen points in thirty-seven trading days to a high of 179.38 on August 5th. It would appear quite obvious thatin the near future, some technical correction should occur. However, the advances in the market, since the narrow trading started almost three years ago, have been of the more or less straight line variety with sharp upswings in a short period of time and with comparatively no technical corrections. Witness the twenty-four point upswing from November 1946 to February 1947, the twenty-two point rise from May 1947 to July 1947 and the thirty point advance from February 1948 to June 1948.

It is possible that the current intermediate uptrend will top out in the 178-185 area and will be followed by a correction to the lower 170s. Following that, a trading range might be built up in an area bounded roughly by 170 and 185. Such action would result in a long head and shoulders bottom pattern with the November-May range of 170-182 being the left shoulder,the sharp decline to 160 in June being the head,and the contemplated 170-185 range the right shoulder. Such a pattern would be the preliminary for a strong market in 1950.

Edmund W. Tabell

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