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TABELL'S MARKET LETTER

September 8, 1961

The Dow-Jones Industrial average reached a new all-time top on Thursday's intra day high of 733.53. The New York Times 50-Combined Stock average and the New York Herald-Tribune 100-Stock average also reached new high territory. Standard & Poor's 500-Stock Index failed by a fraction to equal its August 22nd high. The breadth-of-the-market or internal action of the market, however, presents a quite different picture. Our breadth index, which encompasses the entire market rather than the relatively few stocks in the averages, has failed to better the May high despite the new highs in the averages. This has created a divergence pattern that must be corrected before the market can resume a broad advance. There is still a possibility of this happening, but the index is nearer its July low than its May high, and a new low would be a discouraging development. Volume indications are on the unfavorable side also. The twenty-five week total of upside volume has dropped from a May high of 565 million shares to a twenty-five week total of 276 million shares for the week ended September 5th. Downside volume for the past twenty-five weeks has increased, but at a comparatively modest rate. Upside volume on the twenty-five week moving total has declined 50% from the May high showing a definite loss of upside momentum despite a new high in the averages. Downside volume has increased only about 12%. This indicates no greatly increased liquidating pressure, but rather an increasing reluctance to add to commitments.

Most of our breadth indices point to the probability that the market, as far as the majority of stocks are concerned, made its high in the April-May period, despite the fact that the Dow-Jones Industrials reached a high of only 714.69 at that time, as compared to a high of 733.53 during the past week. Some new development might occur to restore the buying urge and move the market higher on a broad scale. Usually, however, if the market loses its upside momentum after a steep advance, like that which occurred from October to May, it is difficult to renew buying interest while the market is still up. Buying interest is usually renewed after the general market has had a sell-off and a correction of the overbought pattern.

For a long time, this letter has stated that the Dow-Jones Industrial average had a series of upside objectives ranging from 725 to 835, with the majority of objectives centering around the 750-775 level. The average has reached the lower part of the suggested upside potential. Considering the poor breadth action, it seems doubtful that the average will attain the maximum objective on the present move, although it may do so at a later date. It is suggested that intermediate-term trading accounts maintain a 25% liquid position until the breadth indications improve.

The present pattern is unusual from a timing viewpoint. In both the 1953-1956 advance and the 1957-1959 advance, the rise did not start to lose momentum from a breadth viewpoint until sixteen to eighteen months after the advance started. The present market began to lose its upside momentum after only seven months of advance. This suggests the probability that after a correction of the overbought situation brought about largely by the rather indiscriminate overspeculation in new issues and speculative glamour stocks, the market might resume its advance deeper into the 725-835 range after the breadth pattern is corrected.

Despite the fact that many individual stocks have declined sharply, the market, as measured by the averages, has not had a real correction since the present advance started in October, 1960, at 565. The decline from the May high of 714.89 to the June low of 673.49 was less than 6% and retraced about 28% of the previous advance. A normal one-third to one-half retracement from this week's high of 733.53 would bring the average back to the 677-649 level. A possible indication that this could be the course of events, would be indicated by a downside penetration of the August low of 709.54.

Despite the cautious tone of this letter, it does not mean that we are overly bearish. It is only suggested that some buying power be held in reserve in the event of a technical correction due to poor breadth action. Would continue to hold positions in groups that are showing the best relative strength action. The groups mentioned in last week's letter fall into this category. They include: Automobiles, Auto Equipment, Chemicals, Gold, Paper, Rails, Rubber and Textiles. During the 1960 decline in the market, many issues bucked the trend. In the event of a nearby correction, the same thing will occur, but probably the better acting issues will be in different groups than the leaders of 1960.

Dow-Jones Indus. 742.76

WN 301