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TABELL'S MARKET LETTER

December 15, 1961

The traditional year-end rally appears to have some difficulty in getting off the ground. On Wednesday, the Dow-Jones industrials managed to reach a new all-time closing high by a very small fraction, but the market lacked breadth and, on Thursday's sell-off, our shorter-term breadth index dropped to a new low for the past twenty-four trading days. Unless breadth action improves shortly, the expected year-end rally may turn out to be quite disappointing.

Longer-term breadth action continues to be negative at best. Our breadth-of-the market index reached its high point in May and is still 10% below the high despite the recent new high in the averages. In fact, as far as the majority of stocks are concerned, the market reached its peak over seven months ago. Breadth action usually gives warning signals well in advance of a drop in the averages. In 1956, the breadth index turned down over a year before the industrial averages. In 1959, the breadth index reached its top nine months before the January 1960 high in the market. The present market could follow a similar technical pattern. It is possible that the industrial average will continue to move higher during the early part of 1962, but for the advance to be of major significance, it must be accompanied by a broadening of the market and a new high in our breadth index. If this fails to occur, danger signals will be flying.

In order for breadth to attain new highs, new groups of stocks will have to take over the advance. The assorted glamour issues that were discounting future growth potentials by selling at extremely high P/E multiples have, in many cases, declined 30% to 60% from the highs reached earlier in the year. When tax selling is ended, some of these issues may have a mild technical rally, but it is doubtful that a sustained advance is in prospect. Most of these stocks appear to have lost their market appeal for some time to come. It is also doubtful that the market leaders of the past six months, the service and consumer goods stocks, will furnish enough strength to help bring this breadth index into new high territory. Most of the foods, tobaccos, utilities, retail trade, personal loan and other former defensive groups, have advanced sharply and, in most cases, have reached their upside objectives. At best, a lengthy consolidating period is needed. Most of these issues are probably better sales than buys at the moment.

In order for the averages to reach new high territory by a substantial amount, and for the breadth index to confirm the advance, there must be strength in new hitherto-laggard groups. Groups which have the potential to show such strength are not easy to find. The oils have been showing impressive technical action recently and certainly could move moderately higher. Other potential candidates for improving strength include: Airlines, Autos, Building, Chemicals, Drugs, Gold Mining, Metals, Natural Gas, Paper, Rails, Rubber, Steels and Textiles. Individual issues in these categories could move higher, but the rise would probably be selective. Also, of course, there are numerous special situations that could assist in bringing the averages into new high territory.

Most of the groups mentioned above are "inside groups". They reached their highs in either 1959 or in 1956-1957 and are still inside trading areas in which they have held for two to six years. It is probable that they are building up very strong long-term technical patterns and it is our opinion that they could be leaders of a future advancing phase of the market. The question is whether the fundamentals warrant an advance into new high territory in the immediate future or whether further consolidation is needed. However, it is possible that continued strength in selected issues in the above groups could carry the averages deeper into the 725-835 area where this letter believes a lightening of commitments is in order. We will continue to drop issues from our recommended list when technical objectives are reached. This occurred recently in three issues: Ford Motor (113) originally recommended at 69 1/2 reached the lower part of its 115-125 objective at the recent high of 117 1/2. Eastern Gas & Fuel (51) originally recommended at 29 3/4, moved into the 50-60 upside objective area at the recent high of 54 1/2. Collins & Aikman (28 3/8) originally recommended at 21 1/2, has reached the 28-30 objective. All three issues are removed from the recommended list.

Dow-Jones Ind. 729.40
Dow-Jones Rails 143.91

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