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TABELL'S MARKET LETTER January 26, 1962

At least insofar as the averages are concerned, the market is approaching a critical stage. The last major upmove in the Dow-Jones Industrials started on September 25, 1961 from an intra-day low of 688.87, and culminated in a new all-time high on November 15th at 741.30. At the intra-day low of 689.11 on Friday of this week, that advance had just about been cancelled out. However, the decline was not accompanied by inferior action in the breadth index, and, as of last week, both the longer-term and shorter-term breadth indexes had managed to remain above their September lows along with the averages. As has been pointed out before, this is at least negatively encouraging.

At this stage, either one of two eventualities may take place. A decisive penetration of the September lows by both the averages and the breadth indexes, would, as has previously been mentioned, suggest a possible decline to the 650-635 area. This is, after all, not too far below present levels, and, at the moment, it is difficult to read top patterns which indicate any lower figure for the Dow. The other possibility is that the averages will hold around current levels, breadth will remain level or improve, and a new advance will be started from the present area. The extent of this advance would, of course, depend on how much of a base forms.

This is, of course, all very well, but it does little to suggest a specific investment policy. Since late last year this letter has pointed out the high degree of risk inherent in the market and has advocated reduction of risk exposure in investment accounts. Based on the possibilities above, there is no reason as yet to change this suggestion. However, risk exposure may be reduced in many ways. One obvious way is the outright sale of equities in order to reduce debit balances, or to hold cash. This may be appropriate in conservative accounts. However, reduction of risk may also be accomplished by the elimination from portfolios of fully exploited situations selling at a high price in relation to earnings and their replacement by stocks with favorable fundamental outlooks and technical patterns which are still reasonably priced in relation to earnings. This has been pointed up by the past decline in which many securities such as Swift & Co., North American Aviation and Burroughs, all were higher at their lows of last week than at their highs for October-November, 1961.

It becomes more and more evident that today's markets are characterized by shifting preferences in securities rather than by all-encompassing bull and bear markets, and there appears to be little reason to expect that this type of pattern will not continue to obtain. An interesting example of this type of shifting preference is shown in the following table giving prices of eight securities at their September lows and their January 24th lows. It will be recalled that on each of these dates the Dow was approximately at the same level.

	Low 9/25/61	Low 1/24/62		Low 9/25/61	Low 1/24/62
American Motors	18 1/8	15 1/4	Armour	42	51 3/4
Brunswick	57 5/8	39 1/2	Daystrom	34 1/4	40
Fairchild Camera	*78 1/2	59 1/2	TXL Oil	14 7/8	23
Great West. Financial	55 3/4	37	Pacific Pete	10 1/4	14 3/4

* Adjusted

The above figures speak for themselves and emphasize again the importance of considering downside risk as well as upside potential in investment decisions. Even with the sharp drop that has taken place thus far in the market, a large number of issues are still vulnerable to agonizing reappraisal. In other situations, as fundamental and technical analysis can show, risk is relatively small and potential, over a period of time, can be great. It is such issues that should form the backbone of any investment portfolio, regardless of what course the averages may take.

Dow-Jones Ind. 692.19
Dow-Jones Rails 146.86

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