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TABELL'S MARKET LETTER March 23, 1962

The recent action of the stock market has been disappointing and confusing to a great many investors.

In mid-February, the Dow-Jones Industrial Average reached the bottom part of the 720-740 supply area and failed its first attempt at penetration, reacting sharply to a low of 702.91 at the end of February. From this point, the averages again moved ahead and established a new high for the move, 727.14 last Friday, well above the February peak. Then, in a week of desultory trading the average again backed off and reached a low of 713.02 on Friday. Theorists who had been expecting major buying interest to develop and spark a general upsurge were again disappointed.

In order to get a clear view of the near-term market probabilities it is necessary to go back almost a year, for it was in May, 1961 when the technical conditions that characterized the present stock market first emerged. At that time, the Dow had reached a high of 714.69, within a few points of today's close. After a short correction the Average advanced again and made a new high in August, but this new high was accompanied by (1) a failure to achieve a new high in breadth, and (2) a very sharp deterioration of upside volume. It was that action that led this letter to abandon a constructive attitude and assume a more conservative stance.

As regular followers of this letter know, action since that time has neither deteriorated further nor has it improved much. The new high in the averages in November was accompanied by a breadth peak above the August high and the decline in upside momentum halted. Subsequent to this, on a longer-term basis at least, breadth has acted about the same as the market and there has been no really significant increase in selling pressure. Thus, in summary, the market for almost a year has been one in which there has been no great pressure to liquidate equities, but also one which has been characterized by lack of the buying power which would be needed to generate a broad advance.

Contrary to many expectations there is no technical evidence that such an increase in buying power is imminent. Worth noting is the fact that our shorter-term breadth index failed to make a new high last week despite the fact that the averages exceeded their February peak by a considerable margin. This, at the moment, has no longer-term significance, but it also indicates the inadvisability of basing investment policy on an imminent broad advance. Such an advance, until such time as technical conditions change, must be regarded as highly improbable.

Until the technical picture changes, then, it appears we are in for more of the same. In other words, the market will probably continue to exhibit the same characteristics shown since last May. These characteristics are, among others:

(1) A relatively narrow trading range in the averages. For example, since May, the Dow Industrials held between a high of 741.30 and a low of 673.49, a range of barely 10%.

(2) Shifting leadership. The "glamour" issues topped out in April-May 1961 and leadership was assumed by the "defensive-growth" issues such as foods and utilities. Now these appear to have lost upside momentum and a new group of cyclical stocks has taken over the market leadership.

(3) Wide swings in individual stocks. Another way of characterizing market action over the past year is to note that Texas Instruments, which this week reached a low of 86 1/8, sold as high as 206 3/4 last May. Cluett Peabody, on the other hand, could have been bought in May for 61 1/2 and reached a high of 107 a few days ago. It is this wide diversity for which the investor should continue to be prepared.

Dow-Jones Ind. 716.46
Dow-Jones Rails 144.40

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