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TABELL'S MARKET LETTER Bermuda, W. I., April 13, 1962

For over a year, breadth-of-the-market action has given a much more accurate picture of the stock market than have the various market averages themselves. The first four months of 1961 witnessed an extremely high volume of trading and featured sharp advances in speculative "glamour" and growth issues. During this period, our breadth index was moving sharply higher week by week. This is just another way of saying that a great many more stocks were advancing then declining. In May, the breadth index reached its high along with the volume and the overspeculation in issues of questionable quality. The Dow-Jones Industrials also reached a high of 714.69 in May, but by August had moved into new high territory, attaining an intra-day high of 733.53 in September. The breadth index, however, failed to better its May high. This indicated a definite loss of upside momentum and suggested lightening accounts on strength and adopting a more cautious attitude toward the market in general. In November, the Industrial Average again made a new all-time high at 741.30 and again the breadth index failed to confirm the rise. At the present moment, the breadth index is near its September low. In simple language, there have, since May, been more stocks declining than advancing. Until this condition changes, it is obviously impossible to have a broad market advance. This lack of upside momentum made this letter very skeptical about the probability of a broad Spring rally.

The decline in the market since May has been brought about by a reduced buying interest rather than heavy liquidation. The 25-week total volume of trading on the New York Stock Exchange has dropped sharply since May, but this drop has been paralleled by a downtrend in buying volume, with relatively little increase in selling volume. What the market needs is a revitalized buying interest. This could be brought about by a dynamic news development, a sharp increase in earning power, or by a decline of sufficient depth again to stimulate investment buying.

From September until this week, the Dow-Jones Industrial average had held in a relatively narrow trading range between 741.30 and 686.99. The average this week broke out of this range on the downside, reaching an intra-day low of 679.08 on Friday. If this penetration is followed by new lows in the breadth index, the downside potential for the Dow could be placed at somewhere around the 650-610 area. However, at this point the relatively oversold condition of the market makes at least a minor rally a possibility. If breadth holds above its lows, and a rally from this point gathers momentum, the potential base around 690 suggests a possible 775. It will be noted that at current levels the average is slightly below the middle point of the two possibilities mentioned above.

With the new low in the Industrial Average, quite a few commentators have noted that this penetration, if confirmed by a similar one in the Rails, would indicate a Dow Theory "bear market". Personally, we consider the Dow Theory an outmoded technical method that has resulted in a considerable number of false signals in the past twenty years. Not only one but many technical indicators must be used in today's complicated and selective markets. In recent markets, breadth and relative strength indices and graphs of individual issues have indicated that a great many stocks have been in a "bear market" for a year or longer. During the same time period, a sizable number of individual issues have been in a "bull market". Under the Dow Theory, the penetration of the January intra-day low of 686.89, a level "tested" three times since September, was significant. The table below shows the action of the Industrial Average and two individual stocks on these three occasions.

	Sept. Low	Jan. Low	April Low (To date)
Dow-Jones Ind.	688.87	686.89	679.08
Brunswick Corp.	57	38	32
Burroughs Corp.	30	39	45

It is obvious that these two issues pursued their own individual ways regardless of the price action of the averages.

From a technical viewpoint, we believe a study of market breadth is a much more accurate indicator of general market action than the averages themselves. Our breadth index has indicated caution since August when we suggested lightening accounts on strength. A study of individual issues and their relative strength, however, indicates that while many issues are in a downtrend, there are a sizable number that are showing above average action and could move higher over the intermediate term.

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