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TABELL'S MARKET LETTER

May 17, 1963

The following is a summary of a talk by the writer to the 16th Annual Convention of the Financial Analysts Federation held at the Palmer House, Chicago on May 15th.

The stock market, as measured by the averages, is very near an all-time high. However, from a technical viewpoint, there is very little resemblance between the technical background of eighteen months ago and the pattern today.

In November, 1961, the market was in an extremely vulnerable technical position. Market action had been deteriorating since the Spring of 1961. Breadth reached its high in April and failed to follow the averages into new high territory in August. By the time the Dow reached its high in November, the breadth index and most other technical indicators were in a decidedly unfavorable position. By early 1962, a broad potential distributional top had been formed in the averages, and in many individual stocks.

The subsequent decline in May-June was the sharpest in 25 years. The Dow-Jones Industrials declined 29% from the 1961 high, but the average decline for all New York Stock Exchange common stocks was approximately 47%. The good stocks declined with the bad and it was one of the few instances in recent years when it was worthwhile to liquidate entire portfolios in order to buy back at substantially lower levels.

This drastic correction was confined to the stock market itself and had little effect on the general business picture. The Cuban crisis brought the market back to near the May-June lows and completed a six-month potential base pattern in the broad 525-625 area. The upside penetration of this area in November and the favorable action of the breadth indices indicated the present advance.

After a 200-point advance to near the level from which the 1962 decline started, how vulnerable is the market at the moment? The Dow is now selling at approximately 19 times earnings and at about 18-17 times possible 1963 earnings of $40-$42. This is high but considerably below the 24 ratio of 1961.

The leadership in the present advance has been good. The leaders have been investment issues that are an important part of the popular averages. The buyers of these issues have been institutional and long-term investment accounts. The public has been slow in coming back to the market. The "fast buck" gamblers who were badly burnt in the 1962 decline are conspicuous by their absence.

Technically, the market shows little vulnerability although some warning signals are beginning to appear. Our breadth index is moving ahead with the averages and there is, as yet, no sign of deviation. This index usually gives a warning signal long before the averages reach their ultimate high. Furthermore, no important distributional tops have been formed in the averages or in individual stocks.

However, there is, in our opinion, a distinct possibility that the present advance is nearing at least a temporary top. The reason is that the majority of individual stocks have not yet built up sufficient base patterns to indicate levels much above the present market. Most individual stocks fall into one of two patterns. In the first group are the issues that held above the 1960 lows in the 1962 decline. This simply means that these stocks have been in the process of forming a base for two or more years. These bases indicate long-term price levels, considerably above present prices.

However, approximately two-thirds of all listed issues declined below the 1960 lows in the 1962 decline. The potential base patterns formed since May-June are only of a year's duration. The upside potentials of these bases have already been reached in a number of cases. From a technical viewpoint, it would appear that some time will be needed to broaden the bases and indicate new high territory.

With the majority of issues needing further consolidation, it would not appear that a roaring bull market is immediately in the offing. Rather we would expect a continuation of a broad trading area with the action of individual stocks more important than the general market. When the pattern is eventually completed we would expect a decisive upside penetration of the 1961 highs and substantially higher market levels.

Dow-Jones Ind.	724.81
Dow-Jones Rails	167.88

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