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OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER January 31, 1964

After edging to an all-time intra-day high of 791.63 on Tuesday, the Dow-Jones Industrial average dropped off sharply at mid-week and mild rallies on Thursday and Friday failed to recover lost ground. More instructive, perhaps, were advance-decline figures which showed a plurality of declines on every day but Friday.

One of the basic tenets of technical analysis is that stocks tend to follow the repetitive price patterns or cycles. These cycles may not be equal as far as timing is concerned -- indeed, they seldom are -- but they do have certain distinguishing characteristics. Roughly, a typical stock cycle may be divided into eight phases as follows (1) A stock reaches the downside objective of a previous top. (2) A base begins to form (3) A base broadens out and completes. (4) An upside breakout takes place and an advance begins. (5) The upside objective of the base is reached. (6) A top begins to form. (7) The top broadens and completes. (8) A downside breakout takes place, a decline begins and the cycle repeats itself.

The job of the technician is to watch this cyclical process unfold in individual issues and to decide, with the tools at his disposal, what phase of the pattern each individual stock is in and what implications this has for the market as a whole The rise from the June, 1962 low of 525 is now 19 months old During those 19 months various stocks have progressed through different stages of the cycle. Nineteen months ago most issues were around the start of the first phase At that time the stocks favored by this letter were those which had not made new lows in 1962 since, in effect, any work done after June 1962 simply enlarged existing bases. These stocks generally did out-perform the market in the early phases of the rise in late 1962 and early 1963. By the Spring of 1963, a good many stocks had already reached the fourth phase of the cycle. Their bases were complete, and they began to move up sharply carrying most averages along with them. At this time, few if any stocks had reached their upside objectives and it was possible to foresee a continued rising market. Laggard stocks had, at least, reached their downside objectives and were at various stages of the base formation process.

By mid-Summer 1963, however, the pattern had changed. By this time some stocks, a minority to be sure, were beginning to attain upside potentials Most, it was true, appeared to have higher potentials and, moreover, some of the laggards had moved up out of their base formations and were coming along behind to take up the slack. Thus, at the end of August, our breadth index reached what has proved, so far, to be its high.

Most readers of this letter are familiar with the breadth index which has, lately, had a good deal of popularity. They are aware that the index is based on advances and declines and that a declining breadth index indicates that fewer and fewer stocks are advancing. Fewer investors are aware of why this is important. A declining breadth index simply reflects the fact that more and more stocks have completed the first half of the cycle mentioned above and are entering into the second half. This is precisely what has been taking place since last August.

As we have watched the market for the past six months, the drama has continued to unfold. Individual stocks have successively reached upside objectives. A small minority of stocks completed their tops quite early and are now fairly close to downside objectives and a new cycle. A greater number are in stages 5, 6 and 7 of the cycle although a substantial group, it must be noted, still appear to be further back along the road, either not having completed their upswing, or still forming bases for a later advance.

All this means that the individual investor must scrutinize his own portfolio ever more closely. As stocks reach upside objectives they should be replaced. New selections, moreover, should be chosen with an eye to defensive value -- solid fundamentals, closeness to support, etc. Such an approach is not only the wisest for capital gains purposes, but also is the best one for protecting a portfolio against any market weakness which may ensue as the present cycle matures.

ANTHONY W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. 785.43
Dow-Jones Rails 181.39