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TABELL'S MARKET LETTER

April 3, 1964

On December 20, 1963 this letter, as is its custom, discussed at some length the phenomenon of the year-end rally. We stated that an identifiable year-end rally had taken place in every year since 1897, usually beginning with the December low and continuing to some point after the new year. We followed up this comment on January 3rd with the speculation that the true beginning of the year-end rally was at the peak of tax-loss selling reached on December 23rd at 752.82 on the Dow.

Subsequent events have proved that this low was indeed the starting point for a rally of some magnitude. Some of the rather unique characteristics of this rally were discussed in our letter of March 6th. In that letter we pointed out that the rise had been (1) relatively steady, and (2) relatively moderate.

We pointed out that a steady and moderate rise of this nature produced a characteristic formation on a chart known as an uptrend channel. The interested reader can very easily inspect this channel for himself. Any daily chart of the past four months' action on the Dow-Jones Industrial average (the one in the next-to-last page of the Wall Street Journal is a good example) can be used for this purpose. The reader will note that it is possible to draw a straight line which is touched by market lows at no fewer than four points. An almost parallel line can be drawn connecting the various highs reached. This line will be exceeded during the week of March 13th to 20th on an arithmetic chart, such as the one in the Journal, but if a more accurate geometric chart is used, the uptrend channel remains inviolate.

In connection with this channel, last week's market action is interesting. After moving sideways for some eight trading days, the Dow reached a low of 809.79 on Wednesday. Late Wednesday afternoon a sharp rally began which was followed on Thursday by a 4.79 point advance on heavy volume. This strength was extended on Friday. Wednesday's low, of course, was almost exactly at the bottom of the uptrend channel discussed above.

The second characteristic of the uptrend channel, in addition to its steadiness, has been its moderation. The mean rise so far has been at an annual rate of 34%. Some analysts have suggested that the rise signifies the beginning of a major market rally. If this is the case, the 34% annual rate appears to be rather low. Major bull markets tend to start with a much steeper rate of advance. For example, the rise from September 1953 to June of 1955 was maintained at an annual rate of 45% for some twenty-one months. In 1958-59, the Dow rose at an annual rate of 42% for fifteen months. The moderation of the present rally, now a little over three months old, does not compare with upswings of this nature.

How long will the rally continue within the confines of the present channel? There is, of course, no real answer for this question. In our study on the year-end rally last December we drew attention to two facts. We said, first of all, that in the seventeen years the rally has continued into March or later, the eventual trend was upward in fifteen instances. The rally has, of course, now continued into April. It is also interesting to note that the longest continuation of a year-end rally without an identifiable correction has been into June.

We have also suggested that the magnitude of the rally is an important clue as to the year's trend. An advance of 10% or more, strongly suggests an upward market. The advance to date has been just about 10%.

It is interesting also to extrapolate the present trend and see where the market may be if the present channel continues. Projection of the geometric mean of the channel would call for a mean price of 841 at the end of April and 881 at the end of June. It is, of course, highly probable that the uptrend channel will be penetrated before this time, thus giving us a clue that a new phase has begun. In March we suggested that uptrend channels are broken in one of two ways. We said: "The less frequent method is by a sharp rise out of the channel on the upside - normally accompanied by heavy trading volume. Such a rise is usually sharply retraced at a later date. More frequently, the breaking of an uptrend channel takes place on the downside, not necessarily confirmed by any increase in volume." With the advance now 73 days old, the investor should be alert for either one of these occurrences.

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