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TABELL'S MARKET LETTER

October 23, 1964

A year and a half ago, on March 15, 1963, we wrote a market letter which elicited some comment at the time. The letter was an attempt to explain the extreme diversity of action of individual stocks that had existed ever since 1956. In it, we broke the Dow-Jones Industrial Average down into three groups of ten stocks each. The first of these groups we called "Early Peak" Stocks, stocks that had reached their highs in the 1955-57 period. The second group we called "Middle Peak" Stocks, stocks that reached their highs in the 1959-60 period, and the final group, "Late Peak" Stocks, those that reached their highs in 1961.

We then compared the relative performance of these three groups by taking an average of each one and adjusting the divisor so as to produce a figure of 524.37 at the 1956-57 high, this figure being, of course, the actual high reached by the Dow three times in the 1956-57 period. The results of this comparison were instructive. Investors will remember that the Dow exceeded its 1957 high in 1959, reaching 688.21, and then reached 741.30 in 1961. The ten "Early Peak" stocks, however, were lower in 1959-60 than in 1955-57 (485.68), and even lower in 1961 (424.46). The so-called "Middle Peak" stocks reached a high of 736 in 1959-60, two years before the average itself reached that figure, but were lower in 1961. By contrast, the "Late Peak" stocks acted about the same as the average in the 1957-59 period, but by 1961 had advanced to a high equivalent to over 1000 in the Dow.

Looking back at this study today, one thing becomes apparent that was perhaps not obvious in 1963. Most observers of the stock market are aware that, after a stock reaches a major peak and declines, a long period of base formation is necessary before the stock again advances. This base formation usually takes time. It is, therefore, interesting that the so-called "Early Peak" stocks that made their highs in 1955-57, also, for the most part, reached their ultimate lows in 1960, also, before the general market. Even more interesting, however, is the fact that these stocks, stocks such as Chrysler, Standard Oil of New Jersey and General Motors, have been the market leaders in the most recent advance. Thus, if we take an average of ten stocks in the Dow that made their lows in 1960, and use as a base the 1962 low of 524, we find that these stocks have advanced to an equivalent of over 1000 in the Dow versus an actual high of 886.28.

In other words, stocks that reached their peak early in the market cycle had more opportunities to form bases in the late 1950's and early 1960's. Having completed these bases early, they have been the market leaders so far. A look at the technical patterns of many of these stocks, however, indicates that some, at least, are close to their upside objectives, and a few have even reached these objectives. While there are still many investment opportunities among the stocks that peaked out eight years ago and are now in a new upward cycle, it would be logical for the investor to begin to look for other groups that might, at some future date, take over market leadership.

In this connection, it is interesting to observe the action of that group of stocks that made their highs in 1959. This group generally has turned in a performance inferior to that of the average since the 1962 lows. However, a look at these stocks, most of them in the heavy industry-capital goods area, indicates that, by now, they have formed sufficient base patterns to indicate considerably higher upside objectives. One good place, therefore, to look for the leaders of the next upswing might be among those stocks that made their highs in mid-1959. Conversely, a good many stocks which were late in reaching their highs and did not make new peaks until 1961 may well require more time to complete their base patterns.

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