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TABELL'S MARKET LETTER

December 31, 1965

For some years now, we have studied the familiar seasonal tendency of the stock market to stage a year-end rally, and it has been the custom of this letter each December to point out some of the conclusions that can be derived from a study of this phenomenon. We have suggested that an exhaustive study of chart patterns since the Dow-Jones Industrial average was first computed in 1897 indicated that such a rally, however minuscule, had invariably taken place. This year the apparent starting date of the rally was on December 6th at 924.44 in the Dow.

A number of interesting facts about the market action of the year end may be noted.

(1) - As stated above, an identifiable year-end rally has taken place in every year since 1897. This rally has often been of great magnitude with advances as great as 28% having been recorded. It has also, on occasion, continued with only minor interruptions for as long as six months into the new year. However, on other occasions it has been of only a few days duration, reaching a top extremely early. Thus, in 1960 and 1962, the rally reached a peak in the first week in January. In 1961, 1963, and 1964 it continued into the latter part of February or March. In 1965, the rally peak was reached in early February.

(2) - There has been a persistent tendency for the rally to begin early in years when the market has been up and late in years when the market has been down. In recent upward years, 1959 and 1963 are examples, the rally commenced from early in December. In 1962, it began late in the year. This tendency apparently held true this year with the December 6th starting date.

(3) - The important thing to watch in connection with market action in the early months of the new year is the low for the previous December. This low has been broken in forty years out of the past sixty-seven. In twenty-three of these forty cases, it was broken in January and February. Since 1937 it has never been broken later than mid-March, with the single exception of 1965. Thus, if the market is able to hold above its December low for the first 2 1/2 months of the year, chances become good that this low will not be broken. For example, in recent years the December low was broken early in January 1960 and January 1962. In 1961, 1963 and 1964 it was never broken. 1965, as noted above, was unusual with the December 1964 low of 850.19 being broken in June when the Dow reached an intra-day low of 832.74.

(4) - In years when the December low has been broken, the subsequent trend has been downward two-thirds of the time. 1960 and 1962, of course, are typical cases. Again, 1965 is an exception.

(5) - The magnitude of the rally is an important clue as to the year's market trend. For example, an advance of 10% or more from the December lows has been followed by an upward or neutral market in twenty-eight of the thirty-three years that such an advance has occurred. An advance of less than 10% from the December low before an identifiable correction takes place has been followed by a downward market in twenty-two of thirty-four years. In 1961, 1963, and 1964, the year-end rally approximated 10%. In both 1960 and 1962 it was under 5%.

(6) - The length of time in which the rally continues into the new year is also important. For example, in eighteen years the rally has continued into March or later. In sixteen of these eighteen years the eventual trend was upward. In 1964, the year-end rally continued into March and in 1961 and 1963, into late February.

In the coming year, therefore, the December low of 924.44 is an important point to watch. If the present rally tops out in early January and breaks this low, it would be a strong indication of probable market weakness. A like indication would be a failure of the Dow to advance 10% or to approximately 1017. On the other hand, if a rally continues into late February or March, or reaches above 1017, an extension of the upswing might be indicated.

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Dow-Jones Noon Ind. - 969.04
Dow-Jones Noon Rails - 246.74

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