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**TABELL'S MARKET LETTER** February 4, 1966

Since reaching a new high of 1000.55 on Wednesday, January 19th, the Dow-Jones Industrial Average has done, essentially, fairly little. It seems, therefore, appropriate at this time to offer a few thoughts about the general stock market climate.

Any discussion of the general market background must begin with the fact, reiterated in this letter over the past few months, that, although the recent upswing from a time point of view is the longest in the post-war experience, almost none of the classic signs of long term market deterioration are present. The new highs in the Dow-Jones Industrial Average have been confirmed, albeit belatedly, by new highs in most indices of market breadth. Volume continues at relatively high levels and, most importantly, upside volume (volume on days in which the market advanced) shows no sign of important deterioration. As pointed out here two weeks ago, short interest figures remain favorable, and most of the other indices which have turned down prior to all major stock market peaks are still moving into new high territory. While all this may not indicate a move to new highs substantially above current levels, it does indicate the continuance, for the time being at least, of a continuing favorable market climate, i.e., one in which it will be possible to achieve satisfactory capital gains performance in selected issues.

While the outlook for the intermediate term thus remains favorable, it is a little bit more difficult to become wildly optimistic about the immediate prospects for stock prices. The six and one-half months that have elapsed between the lows at the end of June, 1965, and the highs made in the middle of January, constitute a rather generous time span for an intermediate rise. Equally disturbing is the fact that this entire advance has taken place without any important correction. At no time during the past seven months rise have our shorter term market oscillators reached oversold territory. In other words, the advance has now been continuing for an extended period without once experiencing the sort of reaction which shakes stocks out of weak hands and puts the market in a strong technical position for a sharp rebound. The last time such a correction occurred was at the June bottoms. Indeed, the only retracement that has taken place in this entire period was the relatively mild one which took the Dow from 969.98 to a one-day low of 924.44 in early December, from which point the traditional year-end rally to new highs commenced.

It is, at this point, difficult to forecast the depth of any intermediate term downswing which might occur. The normal rule of thumb, of course, is that an upswing requires a one-third to one-half retracement. A one-third retracement of the move since June would bring the Dow to 944 which, interestingly enough, is exactly the May high, and a one-half retracement would carry it to 916. As yet, it must be noted, there is no top that indicates anything like these figures. The small top formed in the Dow a week ago indicated 974, which was reached at last Tuesday's bottom. With Friday's strength to an intra-day high of 991.53, the Industrial Average has now returned to the trading range in the 1000-980 area in which a top could further broaden. Since there is at the moment no potential base indicating considerably higher levels, immediate investment odds do not seem particularly favorable.

The above discussion applies, of course, only to the Industrial Average. The other two Dow-Jones indices show entirely divergent patterns. The Rails, of course, have been outperforming the Industrials all the way along the line and posted a substantial new high a week ago despite the refusal of the Industrials to confirm it. It must be noted that at this point all of the longer term objectives which can be charted for the Rail Average have been reached and a new pattern will probably have to form. Meanwhile, set off against this, has been the abysmal action of the Utility Average which, on Wednesday, posted a new low at 146.57 which is, astoundingly, below the bottom reached last June.

"It is, in summary, a stock market in which the intermediate term outlook remains relatively favorable while there is some reason to question the shorter term picture. At such a time, prudent investment policy generally calls for having reserves available to take advantage of future buying opportunities."

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Dow-Jones Ind. - 986.35
Dow-Jones Rails - 259.70