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TABELL'S MARKET LETTER July 15, 1966

The market last week continued the frustrating pattern which has characterized it for some two months. After reaching an intra-day peak of 901.16 in early trading on Monday, the Dow-Jones Industrial Average sold off to a low of 875.33 at mid-week, followed by a modest rally at week's end to 896.65. Volume was consistently light throughout the week.

Friday marked the forty-first trading day since the May 17th low, during which time the Averages have held in a narrow range bounded by 910.35 on the upside and 858.90 on the downside, a range from low to high of 6%. Three weeks ago this letter said - "Insofar as the Dow-Jones Average is concerned, the market remains on dead center". A lapse of 15 more trading days leaves no reason to change this opinion.

It is possible, actually, to divide the action of the market since the first of the year into five distinct phases. The first of these was a narrow 3.4% trading range between 1001.11 and 967.81, which lasted for 25 days in January and early February. The great majority of stocks probably made their 1966 highs somewhere during this period. By this late date, however, a great many issues had already topped out, some as early as 1965, and were in the course of moving lower.

The second phase lasted for 18 days in late February and early March and consisted of a decline from the year's peak to a figure just above 900. The third phase was a mild 31-day rally from a low of 905.40 in mid-March to the April high of 961.91. A great many issues actually made their highs for the year on this move rather than on the previous one in February, despite the fact that the Averages were some 40 points lower.

The fourth market phase consisted of 18 trading days from April 22nd to May 17th, with the Dow losing 100 points from 960 to 860. Since that time the Average has remained contained in the long trading range mentioned above.

While the above outlines the pattern for the Averages, it is not at all descriptive of a great many stocks. As was pointed out in last week's letter, there are a goodly number of issues that are today above their February highs with the Dow 140 points lower. A much greater number of stocks have remained above their March lows in recent trading sessions. It has, in short, been a market where astute investment management could yield reasonably satisfactory results despite the sharp downward trend of the popular averages since last Winter. It must be stressed that this will probably remain so for the rest of the year -- whatever course the averages may take.

Nonetheless, the prospect for the general market must, at this stage, be assessed. At some point, obviously enough, the 41-day old trading range must be penetrated either on the upside or the downside and either a worthwhile rally, or the resumption of the stair-step downward pattern which has characterized the Dow thus far in 1966, will take place. If the former eventuality is to take place, what will be needed is some revival of broad-scale buying interest -- a factor which has been conspicuously absent so far. Here a few statistics may be in order. During the late decline in April and May, downside volume -- volume on downticks as measured by Scantlin Electronics - averaged 5,340,000 shares a day. Since then, in the present phase, downside volume has subsided dramatically, averaging only 2,530,000 shares a day during the past 41-day trading range. However, upside volume, which reached a low of 2,600,000 shares a day during the previous phase, has rallied only mildly to a level of 3,191,000 shares a day during the most recent phase. Thus, the end of the sharp April-May decline was due not so much to strong buying entering the picture as to a cessation of the heavy selling which had driven the Averages downward.

The funds that could generate renewed market interest are, indeed, available. Mutual Fund sales continue good, Certificate of Deposit maturities are high, and the short interest is up. These and other factors represent a potential source of market buying power. Whether they will be translated into actual buying power remains to be seen with the possibility of, and extent of, a worthwhile general market rally hanging in the balance. In the meantime, the best course of investment action is the concentration of funds in that substantial minority of issues which show every prospect of outperforming the market.

Dow-Jones Ind. 889.36
Dow-Jones Rails 231.24

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