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TABELL'S MARKET LETTER April 7, 1967

Today, exactly six months after the now-historic October 7th low-point, the market appears to have lost some of the ebullience which had characterized it in January and again in late March. Capping off nine days of rather lackluster performance since it reached a high of 883.41 on March 27th, the Dow-Jones Industrial Average responded to the lowering of the rediscount rate with only a mild rally, followed by a decline to an intra-day low of 850.22 on Friday.

There is, indeed, a potential top formation in the Dow. The Index has held since late January in an area bounded by, using intra-day figures, roughly 830 and 880. A downside penetration of this area would undoubtedly cause a fairly lackluster market performance to extend well into the Summer, and would involve a testing of the major support that exists at 820-800.

Yet, there is a lingering suspicion here that all this may be nothing more than a reflection of the relatively inferior performance turned in by the Dow since last October when compared with more broadly based averages. For example, we have pointed out in previous letters that both the Standard & Poor's 425-Stock Industrial Index and the 500-Stock Composite, were reasonably close, at their highs of two weeks ago, to new high territory, whereas the Dow has not even approached its peaks of last June and July. Thus, both the Standard & Poor's indices have successfully penetrated a major area of overhead supply and appear to be in confirmed uptrends. This is precisely the feat that the Dow at the moment seems to be having such trouble accomplishing.

The same sort of discrepancy shows up when examining the chart patterns on Standard & Poor's indices. On these averages, no top of any significance is at the moment apparent, again, quite in contrast to the picture insofar as the Dow is concerned. Until such tops form we are disinclined to become terribly worried about stock market prospects.

A number of dubious reasons as to why the advance should be stymied at these levels have been bandied about of late. The first of these reasons relates to the fact, noted above, that the market low was made just six months ago and that, thus, many substantial capital gains will shortly become subject to preferential tax treatment and will, therefore, be established. We think this is dubious at best. First of all, it is highly doubtful that investors automatically rush to sell precisely six months to the day after a profitable purchase. More importantly, even if selling were to take place, it would affect the overall market only to the extent that the funds realized were taken out of the market and not reinvested in other stocks. With yields on alternative forms of investments considerably less attractive today than they were six months ago, we find it difficult to believe that a mass exodus of funds from the equity market is likely to take place.

The second rather dubious contention cropping up is that the market is going to find itself disappointed by first quarter earnings reports which, in the aggregate, at least, are going to be lower. In the kind of a market which anticipated an earnings decline in 1967 by starting to move downward in February of 1966, it is hard not to be persuaded that investors have not already adjusted with equanimity to what March earnings reports will bring.

Meanwhile, there is, as yet, little evidence that the uptrend in effect since last October has been destroyed. It is, after all, but two weeks since the last high in the major market indices and distributional market patterns generally do not manifest themselves overnight. There is obviously greater risk involved in stock purchase at today's prices than was the case, say, last Fall. Nonetheless, until more convincing evidence to the contrary is presented, this letter will continue to take a positive view of the stock market.

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Dow-Jones Ind. 853.34
Dow-Jones Rails 227.48

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