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TABELL'S MARKET LETTER October 20, 1967

Equity markets, for the most part, continued reactionary during the past week. The week commenced with an almost-10-point slide on the Dow-Jones Industrial Average, which was followed by further weakness on Tuesday and Wednesday. The publication of the short interest sparked a strong upswing on Thursday morning, but gains were almost entirely wiped out by the close, and most stocks actually declined on the day. Following this disappointing performance, the slide continued on Friday. The week's intra-day low was 891.35.

The continuation of the drop through Friday's trading made the current downswing the longest in point of time in 1967, and the most severe in percentage drop, with the exception of the steeper decline around the time of the Israeli crisis in May-June. The market climate, quite obviously, has changed somewhat from that which prevailed during the Spring and Summer, and it is worthwhile attempting to pinpoint a few reasons for the rather desultory action of a great many stocks during the past month.

Probably the most direct effect on stock prices during October has been due to the publication of third quarter earnings which have been -- at least in a great many cases, somewhat lower than the market had evidently been anticipating. This is, upon reflection, not surprising. Stock prices in their rise during the first three quarters of 1967 had obviously been anticipating a business upturn of some magnitude. No such upturn has yet been reflected in third quarter results, although there is universal belief that the fourth quarter will show some improvement. It is quite obvious from here on out that the market is going to wait for actual improvement rather than projections.

It seems to us, however, that a more basic reason for the market malaise can be found in the continued political jockying between the White House and the legislative branch in regard to the tax increase, coupled with the strong probability that no tax bill will, indeed, be enacted. We have pointed out repeatedly this year the fact that the market tended to respond favorably to the proposed enactment of a tax increase and the resultant removal of pressure on the monetary authorities to utilize tight money to choke off inflation. The most dynamic part of the 1967 rise in stock prices came in January, immediately after the President first proposed the tax increase, and the next most dynamic rise occurred in August when he recommended that it be enacted into law. The possibility of no tax bill, and a consequent deficit of mammoth proportions introduces uncertainties not heretofore present.

The political machinations on Capitol Hill have dropped the ball squarely in the lap of the Federal Reserve. Any attempt to tighten credit and force the deficit to be funded outside the banking system could bring about consequences unpleasant, to say the least. It is thus possible that the only viable alternative is to provide banks with the necessary credit to take on the growth in debt. In economic terms, this is known as debt monetization, and it is a sophisticated method of printing money -- in a word, inflation. This, also, creates a number of uncertainties.

One of the reasons for using the technical approach is to attempt to make some sense out of an uncertain climate such as the present. We mentioned in last week's letter the possibility of a 870-865 downside target on the Dow-Jones Industrials, and the probability of a continued drop to this level now becomes fairly good. The likelihood is further increased by the proposed changes in margin requirements requested by the Federal Reserve Board after the close on Friday. On the other hand, the Rail Average reached its downside target at this week's intra-day low and may well prove somewhat more resistant to decline than has been the case in the past. Meanwhile, we would expect a goodly number of stocks to remain relatively resistant to the decline, with some even advancing in the face of a poor general market climate.

All of this does not change the long-term picture which, to our mind, remains generally favorable for common stocks. It is possible, of course, that out of the present weakness some signs of longer term deterioration will develop. At the moment, at least, we see little cause for undue concern and believe short-to-intermediate-term weakness should be utilized for purchases in selected issues.

Dow-Jones Ind. 896.73
Dow-Jones Rails 247.50

ANTHONY W. TABELL
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