FILE

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TABELL'S MARKET LETTER November 3, 1967

The stock market gave little evidence last week of wanting to halt its recent price erosion. A drop of over twenty points in the Dow-Jones Industrials during the first three days of the week was temporarily reversed by a 6-point advance in Thursday morning trading. This entire advance was cancelled out in the afternoon, however, to be followed on Friday by a further decline to an intra-day bottom of 853.10 in rather dull trading.

Before examining the possibilities for future price action, it is worthwhile reviewing just what has happened so far. The current decline is, quite obviously, the most serious so far in 1967. To date, the Dow has lost almost 100 points from its intra-day peak of 951.57 on September 26th. This is a decline of 10.3%. By contrast, previous short-term declines during the past year have averaged 5%, and even the Israeli-crisis decline of May-June corrected only 8.6%. The Industrial Index has been joined in its downtrend by the Rails, which are off even more sharply, and the Utilities, which are off modestly and appear to have stabilized somewhat during the past week.

Looked at in another way, the present dip is the first one in 1967 that has extended considerably below the low of the previous advance. The last upswing began on August 28th at 887.73, and current prices mark the Dow 30 points below that figure. Indeed, the entire advance from the July 3rd low of 853.21 has now been erased, and something more than one-third of the upswing from the October 1966 low of around 740 has now been cancelled out.

Obviously, however, the past is only of interest to the extent that it changes the outlook for the future. In order to get the clearest picture of the future outlook, it is best to examine it from a short-term, intermediate-term and long-term point of view.

The short-term picture, it would seem to us, appears reasonably clear-cut. Most of our shorter term indicators are now in deeply oversold territory and the Dow has reached, indeed slightly over-reached, most of its downside targets in the 870-865 area. Taking the since-broadened pattern, 850-840 is a possibility, but it is difficult to see much lower prices than this for the time being. In other words, the intermediate picture is one of a bottom that may have been seen, or should be seen fairly shortly.

We doubt, also, whether the long-term picture is much changed. It calls for, we think, eventual considerably higher prices. This letter has not, at any time during 1967, subscribed to the prophecies of gloom and doom which have emerged from various sources, and we do not think the evidence to date warrants changing our longer term optimism. What the present decline has called into question is the course of prices on their way to new high territory -- in other words, the intermediate-term outlook. It is this picture, the one for the next few months, that is now least clear.

It is possible to view the advance from October 1966 through September 1967 in two ways. The most obvious is as part of a normal upswing that will carry to substantially higher levels without major interruption of any sort. We have inclined toward this view in this letter and we must confess we are not as yet ready to abandon it. The alternative possibility, is, of course, that 1967, and possibly a portion of 1968, might be viewed as part of a protracted trading range out of which the market will ultimately move on the upside and advance to higher prices. If this is the case, then the last year has constituted an upward move within that range, while the present decline might well be part of a general downswing -- also within such a trading area.

Whether this trading-range thesis becomes more or less probable will depend in great degree on subsequent market action rather than past action. The October decline has caused some rather serious technical damage in terms of breadth, volume, etc. None of this damage is so serious, however, that it cannot, between now and early 1968, be repaired. Still, it must be repaired in fairly short order if a continued upswing is to be predicted. The burden of proof, in other words, has now shifted to the bulls.

In any case, investment policy seems clear. A great many issues, are, at the moment, approaching downside targets and even were the intermediate-term to produce a sideways to downward market, it appears likely that they offer minimum risk at these levels. On the other hand, if, later in the year, the uptrend resumes its course, the potential for profit could be impressive.

Dow-Jones Ind. 856.62
Dow-Jones Rails 229.74

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