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TABELL'S MARKET LETTER March 22, 1968

Last week's market traversed old ground. Monday's rally, in response to the two-tier gold system, brought the Dow to an intra-day high of 854.25, just about as high as it had been since early February. Unfortunately, the rally lasted only one and one-half hours, and most of the rest of the week was spent drifting lower. Although peace news late Friday caused a small gain, by the end of the week the Dow had retraced all the advance from the March 14th gold-crisis low.

From a technical point of view it must be admitted that all these fluctuations have some significance. For 28 trading days, ever since February 12th, the market has held in a range bounded roughly by 820 and 855, intra-day, on the Dow. Similar trading ranges exist in all the other popular indices. As long as this sort of thing goes on, the more significant these trading ranges become and if they do, indeed, represent accumulation, the results could be moderately spectacular. The Dow, for example, now has a potential upside objective of somewhere between 870 and 880, and similar objectives exist in other indices.

Still, this trading range can be viewed only as a potential base formation. So far, as any observer can easily see, the rallies have been unimpressive, and some major change in the investment climate will probably be necessary to get the market off of dead center. In a period where political, monetary and economic surprises are occurring almost daily, it would not be too hard for such a change to occur.

What we are again raising here, of course, is the unanswered question as to whether the present downswing will bottom out with the classic climax-selling sequence, or will smother itself out in the current frustrating trading range. We do not think that there is any answer as yet, and we suspect, moreover, that it is rather late in the game for most investors to take protective steps. The investor who has a 50% loss in some "high-flyer" he bought last Summer, is hardly helped by being told his stock is in a downtrend. Of this obvious fact he is all too painfully aware. As we said last week, the best investment policy at this stage calls for being a buyer of common stocks either on weakness, i.e. if the selling climax sequence develops, or over time; that is, if the current potential base broadens and is ultimately penetrated on the upside.

As to what stocks to buy, there exists at the moment none of the ambiguity that beclouds the future course of the averages. During the desultory markets that have characterized 1968 so far, a hardy band of stocks and industrial groups have constantly fought the decline -- either staunchly refusing to go down, or, in some cases, even moving ahead. Included in this group are: apparels, banks, finance companies, grocers, home furnishings, retailers, international oils, savings and loans, buildings and textiles. The obvious relative strength being shown by groups of this type should impress even the most unsophisticated market observer. The counter-argument, of course, is that all the groups mentioned above are so-called "defensive" issues, and such issues always go down less in a poor market. Admittedly, the argument runs, "growth" stocks are performing poorly now, but as soon as the market turns, these magical favorites of 1967 will again make everybody wealthy. This is a delightful theory which unfortunately betrays a total ignorance of the behavior of markets.

One of the most dependable rules of market behavior is that stocks and groups which act the best during a decline generally turn out to be leaders in the next upswing. This is true whatever label (i.e. defensive, growth, cyclical) the investment faddists of the day place on them. Reynolds Tobacco, for example, was just as much of a defensive stock as it is today when it dramatically outperformed the market during the 1956-57 decline. It promptly demonstrated its defensive qualities by going from 13 to 90 over the next four years. Burlington Industries was cyclical when it was outperforming the market in the 1962 break. The ensuing "cycle" took the stock from 9 1/2 to 50. We think, in other words, that the investor who ignores the continuing above-average performance of the groups mentioned above, and instead seeks "bargains" in depressed 1967 favorites, does so at his peril. He is likely to be missing some of the most exciting investment opportunities of recent years.

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