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TABELL'S MARKET LETTER June 7, 1968

Last week saw the equity market put on what, lately, has come to be almost an accustomed show of strength. Some 17 points were added to the Dow Industrials in the first two days of the week, and a 9-point drop on Wednesday was quickly erased by renewed strength on the final two days. Meanwhile, the Rail index chalked up a new 1968 high. Weekly volume, in the process, set an all-time peak.

Let us make no bones about it. There is no point in underestimating the strength and vigor of the present stock market. The underlying strength perhaps requires underscoring at this time since it is not adequately being reflected in the Dow-Jones Industrial Average, which is, of course, the most widely followed single market indicator.

Now, long-time readers of this letter are aware that we have never indulged in the temptation to join the "Knock-the-Dow Club" - a fraternity with a broad membership among market commentators. We are fully aware of the fact that the Dow is a statistical monstrosity. We are equally aware that it represents the fluctuations of only 30 stocks. Yet, pointing out these weaknesses is to overlook the Dow's two great strengths. These are, first of all, that it has been computed continuously over all of this century and is, in fact, the only major average with that long a history. (It should be pointed out that experienced technicians look with some skepticism on back-computed indices. Standard & Poor's indices, for example, are available for the same period, but most of the computation was done in the middle 1950's). The Dow's second great strength is that, let us face it, it is the language most commonly understood by most investors. We would be willing to wager that not one in 10,000 readers of this letter will know, before they read the table below, what the 1966 high in the Standard & Poor's 500 was. (We had to look it up when we constructed the table). Most readers, however, are aware that, in the case of the Dow, it was, roughly, 1,000.

Getting back to the point of exercise, however, the Dow has, of late, been unrepresentative of the market strength. The table below shows the levels of the Dow, Standard & Poor's 500, and our weekly breadth index based on advances and declines at various critical points. As the table quite clearly shows, a clear divergence between the Dow and the S&P has been apparent for over a year. Perhaps the first crucial observation is the fact that on the rally from October 1966 to September 1967, the "500" quite clearly recovered its entire loss and went on to a new high, whereas the Dow peak was well below its old high. From September of last year through March of 1968, the two indices moved more or less in tandem, going to new lows together in November, chalking up highs (under the previous highs) in January, and again making new lows in March. Still, even for this period, the S&P Index was somewhat stronger. However, in April and May the discrepancy became pronounced once more. The Dow failed to better its high of last Fall during May, while the S&P index bettered both the September 1967 high and the February 1966 high. Likewise, this week while the Dow was still holding below its peak of last month, the S&P moved on to a new all-time record level.

The strength of the broader average is paralleled in our breadth index, which confirmed the strength in the S&P by moving above its January 1968 high last month and chalking up another new peak this week. It is now within an ace of establishing a confirmed uptrend by bettering its September 1967 peak.

		DJIA	S&P 500	Weekly Breadth			DJIA	S&P 500	Weekly Breadth
Feb. 1966	High	1001.11	94.72	594	Jan. 1968	High	921.87	97.84	550
Oct. 1966	Low	735.74	72.28	487	Mar. 1968	Low	817.61	86.99	518
Sept. 1967	High	951.57	98.31	558	May 1968	High	935.68	100.15	551
Nov. 1967	Low	839.40	90.09	530	June 7, 1968	High	920.84	101.89	555(E)

We have, in short, if we look at the broader stock market indices or at the breadth index rather than the Dow, a strong and confirmed uptrend. This is not to say that the market will be proof to reactions or even that deterioration and consequent vulnerability may not develop almost immediately. This, however, is sheer guess work. A fully invested position to take advantage of what appears to be the obvious trend at the moment, therefore, appears appropriate.

NOTE: The above was written before the announcement of higher margin requirements. While this may cause near-term weakness, the basic conclusions are, of course, not altered.

Dow-Jones Ind. 914.88
Dow-Jones Rails 266.17

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