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TABELL'S MARKET LETTER June 14, 1968

"The silly season is with us again -- has been with us for some time in fact -- and it is, we suppose, time that due note was taken of the fact in this letter. We refer, of course, to the tumultuous activity and wide gyrations in a variety of what have come to be known as 'swinging' stocks -- most of them on the ASE and Over-the-Counter, and engaged in wild, improbable businesses that very few people understand."

The above paragraph opened this letter just eleven months ago on July 14, 1967, and it can equally well be used again today, for the same thing is happening again -- redoubled and in spades. The Amex is boiling, and the frenzy in the Over-the-Counter market has, unbelievably, become even greater than last Summer's. To this familiar scenario has been added a skyrocketing new issue market recalling the famous "Don't-go-broke-go-public" motto of 1961. We are, as the financial pages seldom tire of telling us, in the midst of another era of unbridled and, to a great degree, senseless speculation.

There is a common chain of reasoning running through all this. The chain runs: (1) speculation is rampant; (2) speculation is bad; therefore, (3) we should worry about the stock market. A host of factors give rise to this chain, not the least of which, we suppose, are the Puritan ethic and a remembrance of the events of the 1930's. The lesson is a valid one, but it can be oversimplified.

To the technician, the relationship between periods of high speculative activity and stock market tops is a complex one and one best examined in the terms of numbers rather than emotion. There has, indeed, been an historical relationship between speculation and stock market peaks, yet the correlation is difficult to pinpoint and, furthermore, has been changing somewhat in recent years -- a fact which does not tend to make the task of stock market prediction any easier.

At least until recently, most indices of speculative activity tended to be so-called leading indicators. In other words, they tended to top out before the popular averages. The table below shows the time of the peak in the Dow-Jones Industrial Average for the six major market tops of the past 32 years, together with the peak in three widely-used indices of speculative, confidence, total NYSE volume, (on a 25-week basis), ratio of Amex volume to NYSE volume, and the Standard & Poor's Low-priced Stock Index. As the table quite clearly shows, through 1961 at least, speculative activity had a well-defined tendency to peak out in advance of the market. During this period, in other words, it was profitable not to worry about speculation, but rather to worry about speculation coming to an end. A period of three to six months of reduced exuberance following an outburst of enthusiasm generally constituted a pretty reliable sell signal. This relationship was reversed, moreover, in 1966 when most indicators of speculative confidence peaked out after rather than before the Dow-Jones.

Peak in DJIA	Peak in NYSE Volume	Peak in Ratio of Amex Volume to NYSE Vol.	Peak in S&P Low-Priced Stock Index
June, 1946	April, 1946	January, 1946	February, 1946
January, 1953	February, 1951	July, 1952	January, 1952
July, 1957	May, 1955	March, 1957	April, 1956
January, 1960	April, 1959	March, 1959	March, 1959
November, 1961	September, 1961	June, 1961	May, 1961
February, 1966	April, 1966	February, 1966	April, 1966

What then of the current speculative phase? We are inclined to guess that the present phase may ultimately peak out, not as did 1966, but in a manner similar to the prior market tops. The continued market strength following a speculative upsurge has, generally in the past, been caused by a quite understandable phenomenon -- the movement of speculative money into investment-grade and/or cyclical issues. Thus, the Dow average, composed of such issues, has tended to reach its zenith at a later date than the more speculative indices. All of this generally takes place at a time when market breadth is deteriorating and when cash reserves in the hands of investing institutions have been fully expended. By contrast, at the moment, cash reserves are still at close-to-peak levels, and breadth has been unusually dynamic rather than static. If this theory is correct, we can recognize the current speculative lunacy for what it is, without drawing overly-pessimistic conclusions as to the investment climate for the months ahead.

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Dow-Jones Ind. 913.62
Dow-Jones Rails 265.58
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