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TABELL'S MARKET LETTER July 12, 1968

The practice of stock market forecasting is a hazardous one at best, and beset with a great many pitfalls and temptations. One of the temptations continually facing those called upon to comment on the equity market is to waste time with factors that are either inconsequential or irrelevant.

Two examples of this tendency which have presented themselves in recent weeks come to mind. The first is the widespread disappointed comment at the lack of follow-through shown the price advance which featured Thursday morning's trading. It will be recalled that the two opening days of the week, following the sharp rise on July 3rd prior to the long week-end, had seen the market ahead sharply according to most major indices with the number of advancing stocks sharply outnumbering those declining. This advance continued on Thursday morning with the Dow reaching an intra-day high of 933.83. Volume in the first hour set another one of the new records that have been a commonplace feature of the turnover statistics of late. However, the advance died out in the afternoon with most of the gains being given up and actually, by the end of the day, declining stocks slightly outnumbered those advancing. Friday's action was desultory with the average posting a modest drop and advances and declines just about even.

This kind of short-term action tends, of course, to bring forth all sorts of profound comments, but the fact is it doesn't really mean very much. There are a great many other factors a great deal more indicative of the short-term prospects for the market among which, we think, are the following.

From the timing point of view, first of all, the recent short-term advance has been, in effect, only some six days --- since July 2nd. There is almost a universal tendency for short-term trends to run considerably longer than this --- generally some 20-25 trading days. Secondly, most available projections indicate higher short-term projections for the averages and for individual stocks. The Dow, for example, broke, in Wednesday's trading, out of the congestion area at 892-920, which had confined it since mid-May. A reasonable price projection for this base would call for a target in the 940-950 range to be reached without too much difficulty. Meanwhile, the Standard & Poor "500" continues to have a near-term upside objective of 104 versus Friday's close of 102.34. Thirdly, the advance had, until the latter two days when consolidation set in, showed above-average breadth with almost 1000 stocks advancing on July 3rd and July 8th, and a reasonably good plurality of advances over declines on July 8th. The most plausible short-term forecast, therefore, would ignore Thursday's and Friday's weakness and call for generally higher prices to be achieved in the near future.

Enough of the short-term comments. The longer-term outlook has also been confused, we think, by a number of essentially irrelevant factors. Among these is the now-widespread talk about a business slowdown of some nature in the second half of 1968. We confess to no fixed opinion on this subject -- indeed, most of the concrete forecasts we have seen for the last two quarters of the present year are distinguished largely by their impreciseness. Overall profits will be down, it seems, but no one is quite sure how much; and furthermore there will be a great many exceptions, etc., etc., etc. All this is very nice, but ignores the fact that any attempt to correlate short-term earnings levels to stock prices constitutes one of the most fruitless intellectual exercises possible. This is especially so in today's market where a great many issues remain essentially unexploited and where the pressure of investment funds moving into these issues could well produce considerably better price levels without any great changes in the overall earnings picture.

Again, we think there are a number of more important factors that bear on the stock market outlook for the remainder of the year and beyond. These include the impressive technical evidence cited repeatedly in this letter that the advance which started last April is likely to be at least of intermediate-term, and very possibly longer-term, duration. Equally important is the fact that to date no important signs of a distributional phase of the market have as yet appeared and, indeed, the breadth and vigor shown on an intermediate-term basis have been, if anything, greater than the analyst would have a right to expect. It is, in summary, early in the game to take anything other than a constructive attitude toward the stock market.

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