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**TABELL'S MARKET LETTER** November 22, 1968

For the past month, with a short digression for the discussion of election prospects, this letter has devoted itself to consideration of the outlook for individual industry groups. It was, actually, a good period to pick for such a discussion. When the review began, on October 18th, the Dow-Jones Industrials closed at 967.49 vs. Friday's close of 967.06, so that, presumably, individual stock selection, rather than the market, has been the most important investment factor over the period. Nonetheless, it appears wise at this juncture to back up and once more to take a look at the prospects for the overall equity market climate.

The events which are central to any technical discussion of today's stock market began, it seems to us, some 3 1/2 months ago -- to be precise, on August 9th. On that day, the Dow-Jones Industrial Average posted an intra-day low of 863.33, over 100 points below its present level. The Standard & Poor's "500" was at 96.11 vs. the Friday close of 106.30. The next 40 trading days were spent in a rather dynamic rally with the Dow advancing to an intra-day peak of 974.27 and the Standard & Poor's to 105.78. This was in turn followed by an 8-day decline to low figures of 936.54 and 101.85 respectively. Subsequently, in the past 11 trading days an advance has ensued bringing the Dow back to its former high and the Standard & Poor's "500" to a level somewhat above its peak of late October. It is rather easy, therefore, to divide the market, since last August, into three separate phases -- the first, a long and powerful rally, the second a minor decline, and the third a rally which has wiped out that decline entirely.

It is interesting to try to relate these three phases to world news at the time they were taking place. During the first phase, for example, the dominant themes were (1) the improving prospect for a Vietnam settlement, and (2) the increasing probability of the election of Mr. Nixon. By the end of October, Mr. Humphrey's increasing strength in the polls was becoming apparent, and the market thus declined, reaching its intra-day low the day before the election. The news surrounding the third phase is even more interesting in light of the ability of the market to rally in the face of a less optimistic Vietnam outlook and a rather serious European monetary crisis. It is, thus, at least, arguable that based on the experience of the past two weeks, other factors have replaced Vietnam and the international money picture as the subject of investors' prime concern.

Technically, of course, the most important factor is the 40-day August-October rally. In it, the Dow-Jones Industrial Average broke decisively out of the trading range which had contained it since the middle part of 1967. As we have stated before, the upside implications of this base plainly point to considerably higher levels, i.e., 1300 over the long term and a possible nearer-term 1100 to be reached, say, in the first half of 1969. This long-term picture, therefore, dictates for the majority of investors, it seems to us, a rather fully invested position with concentration on the unexploited groups which have been discussed in this space previously.

From a shorter-term point of view, however, attention must shift from the August-October rally to the pre-election decline and the technician must ask himself whether this modest drop, on the order of 3 1/2%, was sufficient to correct the almost 13% advance which preceded it. In consideration of this question, there are a number of factors to be taken into account, including the extent of the oversold position at the November low, and the size of the base subsequently formed. It is, in this case, necessary to note that the market had not, by most measurements, reached an oversold position three weeks ago and that the base formed at that level was small. It is these factors that lead us to some doubt about the market's ability to continue a short-term rally from these levels without undergoing a further correctionary process of some sort.

It is necessary to emphasize again that the truly relevant factor at this time is the long-term outlook and not the questionable short-term prospect which is useful in this instance only as a rough guide to timing. We think that even during a short-term decline individual issues could out-perform the market to a sufficient degree to make their purchase at current levels profitable. Any weakness which might take place, therefore, must be regarded as a purchase opportunity.

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Dow-Jones Ind. 967.06
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