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TABELL'S MARKET LETTER February 28, 1969

Rapid change is a permanent attribute of the stock market, and events of the past two weeks provided still another example. Just three weeks ago this letter found it necessary to comment on the dullness which had characterized trading for most of 1969. That dullness rapidly disappeared in a blazing display of fireworks. On February 17th, the market commenced a six-day decline which, in terms of the Dow-Jones Industrial Average, erased better than 60 points in the short space of six trading days. What was, at least, a temporary bottom, appeared to have been reached last Wednesday when a four-point recovery occurred. At the week's lows, the Industrials were well below their previous lowest level for the year, while the Rails and Utilities had retraced all of or a bit more than the advance from their respective January bottoms.

The central question, as it is following any short-term decline, revolves around the extent to which the longer-term market pattern has been altered by the weakness. As readers of this letter are well aware, we have adhered for over two years now to a basic forecast model for the stock market. This model states, in summary, that a long-term uptrend began in October 1966 and that, despite interruptions, it has remained in effect ever since that time. This model enabled us to remain relatively optimistic throughout late 1967 and early 1968 and, in the context of this forecast, the 1968 advance to a high in early December was hardly surprising. Obviously, our task at the moment is to fit the recent decline into the context of this model and, if this cannot be done, to revise the forecast.

Looked at in percentage terms, there is absolutely nothing unusual about the market downswing which began in early December and continued, at least, through last Tuesday. Based on the Dow-Jones close, it constituted an 8.67% drop over a period of 53 trading days. Declines of this magnitude have repeatedly punctuated previous upswings, admittedly, in most cases, somewhere around the latter stages of these upswings. As an example, the market advance from 1953 through 1957 saw no less than four declines of a magnitude and duration roughly similar to this one. The 1957-1961 upswing was interrupted also by four similar declines between 1959 and 1960. The 1962-66 advance was punctuated by a similar drop in May-June 1965, and the present advance, of course, was interrupted by declines in the Fall of 1967 and in early 1968. In this context, the recent weakness shapes up as nothing more than a common, garden-variety sort of correction.

The precipitous weakness of the six-day drop ended last Tuesday, however, is something else again. There have been only five steeper six-day declines in the past thirteen years and of those, four were characteristic of major bear market bottoms -- three occurring around the 1962 low and one at the 1966 nadir. It is necessary to go all the way back to 1956 to find a decline as vicious as the last one ending an intermediate-term downtrend. In other words, the sharpness of the decline in a short period strongly suggests selling of a climactic nature. This is a bit surprising when it is remembered that volume on the drop increased hardly at all.

Despite the apparent cross-currents, however, we have no difficulty in fitting market events so far into our basic model for the stock market. The present phase of the advance began with a move out of a broad trading range between, roughly, 817 and 935, which had contained the Dow throughout most of 1968. The present downswing, after all, constitutes nothing more than a return to the upper part of that level. Furthermore, the type of stocks that were more severely hit by the decline are consistent with the pattern. It was the obvious areas of speculative excess which received the greatest shelling, most notably the conglomerates with ricky-ticky capitalizations. We may well be witnessing the first stages of a demise of the entrepreneurs who thought they could put together investment magic through the issuance of brightly colored pieces of paper.

Meanwhile, the less exploited, higher quality issues have proved relatively resistent to the drop. This weakness in areas of blatant speculation, coupled with a search for sounder values, is perfectly consistent with the market stage we are assuming. In summary, therefore, we see little reason to reduce our basic thinking about the investment outlook. Climactic declines are tricky things and we would not want to write off the possibility of further downside fireworks. Nonetheless, we are inclined to view the present level as a buying opportunity.

Dow-Jones Ind. 905.21
Dow-Jones Rails 253.68

ANTHONY W. TABELL
WALSTON & CO. INC.

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