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TABELL'S MARKET LETTER June 20, 1969

There was little in the way of encouragement in last week's stock market performance. The four-week-old downswing continued unabated, with the Dow Jones Industrial Average slipping to a new 1969 intraday low of 873.32. Two abortive attempts at a rally were made, the first when a twelve-point slide reversed itself in the final hour of Tuesday's trading, and the Dow rose some seven points on a late tape. This was followed by strength Wednesday morning, but the rise soon petered out and almost all of the gains were erased by the close. The slide continued on Thursday and a rather tepid rally on Friday morning was also squelched, the Dow again ending in minus territory.

The viciousness and breadth of the decline coupled with the ease with which the support at 920-900 was penetrated was, quite candidly, surprising to this letter. The fact that the investment environment had deteriorated markedly since the end of last year was nothing new. In March of this year we pointed out that more stocks were in confirmed downtrends than had been the case in sometime. The number of such stocks has been increased even more by the recent weakness, evidenced by the skyrocketing numbers of new 1969 lows being chalked up by individual issues - - - as of a week ago, almost 50% of the entire list. Still, before palsied fingers reach for the panic button, it is perhaps worthwhile to make a few attempts to put the current declining stock market into perspective.

Two sorts of technical measurements are relevant in the present case. The first kind attempts to gauge what the market has been doing. The second is an attempt to gauge the internal market structure and its susceptibility to a major decline.

The first type of measurement - - an analysis of the current trend - - - is, quite obviously, bearish. The Dow is now down 11.3% over 133 trading days, the ninth most serious decline in the past thirteen years. To put this in perspective, however, it must be noted that many declines of approximately equal magnitude are hardly remembered as great disasters. There were two such drops in 1956, another one in 1965, and most recently, the decline between September, 1967 and March, 1968, which, incidentally, closely resembles the present one in a number of ways. In terms of market breadth (the number of stocks declining) the present fall has been somewhat more severe, although again having none of the characteristics of such declines as those occurring in 1962, 1966, or even 1960. It is hardly a startling conclusion to state that the current trend is downward, and evidence of reversal is conspicuously absent.

To get an idea of how far the decline may carry, however, we must turn to studying the market's internal condition and ask ourselves whether the internal factors conducive to a major decline are, or may be present. Let us mention just a few factors.

1. Previous major declines have, inevitably been preceded by rising confidence and an increasing multiple of earnings being paid for equities. The price-earnings ratio for the Dow over the past two years has been falling rather than rising.

2. Previous bear markets have also started when very little cash was available for investment in the hands of institutions. In the present case, institutional cash position is at record levels.

3. In the past, major bear markets had been foreshadowed by decreasing volume. Volume, so far, in this market, is remaining high.

4. Another universal precursor of previous declines has been an extremely low short interest. The present short interest, while declining, is still hardly at a low figure.

5. Most important, perhaps, previous bear markets have been accompanied by an almost universal deterioration in stock patterns. Despite the number of stocks in downtrends, a large number of patterns are at the moment still potentially strong.

It is in summary, difficult to argue against the probability of lower market levels over the near-term. At the moment, however, it is difficult to envision the present drop as a start of a major bear market, and we are inclined to suspect that the ultimate recovery may be as surprising as was the decline.

Dow-Jones Ind.	876.16
Dow-Jones Rails	216.13

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