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TABELL'S MARKET LETTER

August 1, 1969

We concluded last week's edition of this letter by saying - "The stage, therefore, is set. Downside objectives are beginning to be reached, stocks are at low levels, and the timing is about right. However, any evidence of a change in the downside momentum of today's stock market is still waiting, as of this writing, in the wings".

This week, the evidence began to emerge from the wings.

The week began in the dreary fashion to which investors have become accustomed. The Dow chalked up an almost 12-point loss on Monday, and, after a feeble rally attempt Tuesday morning, dropped another 4 points by the close. This decline continued in Wednesday's early morning trading with the Dow reaching an intra-day low at mid-week at 788.07. Noontime on Wednesday, however, marked the turn. The Dow erased a 9-point loss to close with a small gain, and extended this with advances of over 11 points on both of the final two trading days of the week. The total advance from low to high was 55 points in two and one-half trading days.

Is this, then, conclusive evidence that the downtrend has been reversed? The answer must be no --- for the reason that there has simply not been enough time for such evidence to be conclusive. What can be said, however, is that the action of the past two and one-half days is totally consistent with the theory that a major bottom has been seen.

Let us enumerate some of the favorable features of the rally. First of all, market breadth. On both Thursday and Friday more than 1100 stocks, better than 70% of the total traded, advanced. (The 1183 advancing issues on Friday constituted the highest total in the history of the Stock Exchange). This type of unusual breadth action has occurred on each initial rally following each major low in the stock market over the past 13 years. It is parenthetically only the second time in 13 years that the number of advancing stocks has been this high for two consecutive days --- additional evidence of the deep oversold condition that existed at the mid-week lows. Volume, in addition, was satisfactory. It extended to over 15 million shares on Wednesday and Friday and was above 14 million on Thursday. This statistic is difficult to relate to past history on account of the abbreviated daily sessions, but it represents a satisfactory rise from the relatively low level of volume on the last leg down.

Despite all this, as we said above, the evidence is not totally conclusive, and only time will provide confirmation that a bottom area has been reached. It is worth enumerating some of the things we will be looking for to provide such evidence over the coming period. We would watch, first of all, to see a conclusive penetration of the downtrend channel which has characterized the market since May. This could take place were the advance to continue next week or, as a matter of fact, if the market were simply to hold its gains over the coming few trading sessions. Further important evidence of a bottom having taken place would be provided by a sharply reduced number of stocks making new lows. It would be highly encouraging if the number of daily new lows were to drop off to around the 50 level and stay there for a period of time. This would confirm that almost all stocks had exhausted their downside momentum on the recent decline. Another encouraging factor over the next week or two would be a buildup in the level of odd-lot short sales, a number which generally increases shortly after major market bottoms. A final evidence would be provided by the ability of our short-term breadth/volume figures to reach an historical overbought condition. Since most of these are based on 10-day totals, such action could hardly occur before mid-August, at the latest.

It is well to remember, also, that even if the ultimate low for the downswing were to have been made as of last Wednesday, that an immediate advance from these levels would be unlikely. The most bullish near-term prognosis that it is possible to come up with is continued backing and filling around the present area in order to build a base for a further market advance. When and if the evidence continues to pile up that the decline has been completed, there will be plenty of time to assess the prospects for the future.

Dow-Jones Ind. 826.59
Dow-Jones Rails 199.31

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