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TABELL'S MARKET LETTER October 10, 1969

Since this is a technical market letter, many readers will, we suppose, expect us to go into a long dissertation about this week's "testing" of the 800 level in the Dow-Jones Industrials and to issue a forecast as to whether this supposed bastion will, in fact, withstand the assaults of enraged sellers. Frankly, we couldn't care less.

Moreover, we think the market agrees with us. The momentary penetration of 800 at noon Thursday, was accompanied by nothing more than yawns and decreased volume. When it became apparent that the sky was, in fact, not falling, prices immediately firmed and were somewhat stronger on Friday.

Despite the action of the Dow, of course, it is obvious that the market levels reached on July 29th were not, in fact, being tested at all this week. Only 125 issues made new 1969 lows on Thursday, as contrasted to 732 new lows posted on July 28th. Moreover, the intraday low on the Standard & Poor's 500-Stock Index was 91.75 vs. 88.04 at the end of July, with the New York Stock Exchange Index showing a comparable disparity. It should be obvious that the investor who is spending a lot of time worrying about the 800 level, could profitably be turning his energies in a number of other directions.

We have reiterated our attitude concerning the present stock market in previous editions of this letter. It is, in sum, that the market is presently forming a base for an advance to begin at some future date. At the present time, it is impossible to make projections as to how far this advance might carry. What is beginning to emerge at the moment is a series of clues about the nature and shape of the base formation and the likely behavior of individual stocks while the formation is taking place. Let us expand on this theme a bit further.

Base formations can be relatively wild, violent affairs with wide swings back and forth, or they can be more protracted periods with narrow swings characterized by relatively light volume. We are conditioned by recent experience to the former type. Both the 1962 and 1966 bottoms involved relatively wide swings and each one involved a rather sizeable penetration of the initial climactic low. The initial low in 1966 was made in August and this was later broken in October. In 1962, there were two sharp downthrusts after the May selling climax, a move to a new low in June, and another move below the May low in October. 1969 action is, so far, refusing to conform to either of these patterns. In 1966, a new low was made 24 days after the initial climax, and in 1962 a new low was posted within 11 trading days. All of these new lows came after sharp recoveries. The Dow recovered 6.3% following the May 1962 low and 6.2% following the August 1966 low. In the present case, the Dow in September recovered only 4.4% from the July 29th bottom, but as of the moment, 51 trading days after the selling climax, no new low has been posted.

All this is obviously descriptive of a period in which the fluctuations are less violent and in a narrower range than in any of the two previous market bottoms. In order to find a base formation period that is comparable, we have to go back a number of years to 1957-58. In this instance, the climax low reached in October of 1957 proved to be the ultimate bottom and the market spent some six months scraping along this bottom on relatively light volume before any sort of an advance was able to get under way.

If the 1957-58 parallel continues to be followed, we can, at the moment, look for very little action in the averages, a protracted trading range perhaps extending well into the first quarter of 1970. However, one additional characteristic of 1957-58 is worth noting. During that period, there were large numbers of issues which remained relatively unaffected by the preceding bear market and which, during the period the averages were basing out, were already well on their way to new highs. This was true at the time of most drug, tobacco retailing, food, and utility issues, and it is interesting to note that these issues not only continued to move ahead uninterruptedly during the base formation, but were the leaders once the 1958 advance got under way. The comparable action being displayed at the moment by Office Equipment, Drug, Cosmetics, Savings & Loans, and certain Retailing issues, is striking; and it may well be that a great many stocks in this category have already embarked on bull markets of their own. In other words, while it is too early to get excited about immediate general market prospects, we think that more and more stocks are beginning to show up as attractive capital gains vehicles.

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