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The passage of time and the progression of market cycles continually bring new sets of problems which are posed to the market technician. Until just recently, the major problem was to determine whether July 29, 1969 constituted a market bottom, or merely an interruption of an ongoing decline. The evidence inclined us fairly firmly toward the former view all along, and it has continued with each week to be more conclusive. The market strength of the latter part of last week when the Dow again approached its October 24th high added further evidence. It was accompanied by positive readings in a number of "lagging" indicators -- indicators designed to signal uptrends not close to bottoms, but after a reversal has been well confirmed. At the present time, most such devices are in positive territory and the premise of a new market trend must, it seems to us, be accepted until further evidence contradicts it.

This being the case, a new set of problems is then posed, centering around the questions of how far can the advance carry and how long can it be expected to remain in effect. There is, for a number of reasons, no easy answer to these questions at the moment. One reason is that all of the popular stock market indexes, along with a substantial number of individual stocks, are in what are known in technical parlance as broadening base patterns. A broadening base occurs when a decline takes place with a number of significant pauses on the way down. When the market finally bottoms and a recovery sets in, very often pauses will take place at approximately the same levels on the upside followed by a resumption of the uptrend. This produces the familiar "head and shoulders" type of base formation which, when it is complete, allows for a much broader projection than was originally the case.

Let us take as an example the current chart picture on the Dow-Jones Industrial Average. Between May and July of this year, the Dow declined from just under 970 to its low of under 800. There were, however, a couple of fairly significant pauses on the way down, one in early July in the 868-888 area, and another in mid-July at 840-856. As we all remember, once having touched its July 29th low, the Dow subsequently remained in a trading range between 800 and 840. As we indicated at the time, the upside potentials of this base centered around the 860-885 level. Once 840 was penetrated on the upside in October, however, a trading range between 836 and 862 characterized the market ever since. If one is willing to accept that this "matches" the late July pause in the downswing, a broadened upside projection of 920-950 becomes possible. The pattern could broaden still further with additional work in the 880 area.

A similar possibility for broadening exists in the Standard & Poor's "500". A conservative projection on the upside is 103 versus a present level of 98. This would be below both the May high of 106.74 and the 1968 all-time high of 108.37. It is, however, not at all a stretch of the imagination to conceive that the pattern could broaden so as to indicate an objective in the 110-115 range or a new all-time high for the Index.

The problem of projecting an upside target is further compounded by the fact that, since the middle 1960's, bull markets, in the averages at least, have been considerably less dynamic. The Dow advanced better than 70% between 1958 and 1961, and better than 85% between 1962 and 1966. The subsequent advance to December 1968, however, was only 32%. The familiar argument that the Dow was not representative of the market during the period is, at best, only partially true, since the broader-based indices also chalked up historically small advances in 1966-68. One thing that seems not to be changing, however, is the length of time which an advancing phase occupies. On this basis, it would be normal to suggest that the coming upswing will last somewhere between a year and two years, pretty much the standard for the post-war period.

In summary, then, there are some real difficulties involved in forecasting just how far the market rise may carry, and we would not expect these difficulties to be resolved for some time. It is not necessary, however, to be able to see the end of the road at the beginning of the journey. The odds now favor a fully invested position until such time as market evidence persuades us otherwise.

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