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TABELL'S MARKET LETTER

February 20, 1970

What the stock market desperately needs at this point is an event.

An event, it should be explained, is one of those dramatic news items which seem to have a penchant for occurring at major stock market bottoms and which provide an excuse for anyone who, prior to the event, was sure the stock market was going lower, to rush out and buy stocks because they are now, with equal certainty, going higher. The one common characteristic of events is that they have absolutely nothing whatsoever to do with the stock market -- at least on a near-term basis. Their major function is to serve as an excuse for the market to do what it was in a technical position to do in the first place.

The reader will no doubt recall a few of the more memorable events which have occurred at past stock market bottoms. The most recent, of course, was President Johnson's speech prior to the April Fool's Day rally of 1968. The market's mood at that point was one of profound concern over Vietnam. Despite the obvious fact that our disengagement in Vietnam was going to be tortuous, the market responded by immediately going through the roof.

Before that one, another Johnson speech constituted, for our purposes, an event. This was the January 1967 State-of-the-Union Message when the tax increase was first proposed. The market at that point was preoccupied with inflation and the tax increase (which, incidentally, was not enacted for over a year) was supposed to be a palliative. The market skyrocketed. Going back further in history it is possible to recall the Cuban Missile crisis which accompanied the bottom in 1962 as an event of similar proportions.

Meanwhile, the present market, starved for events of this sort, is forced to invent them. Earlier this month, for example, it invented a mythical drop in the prime rate which brought about a 10-point rally. Lately, it has taken to going up in response to speeches by assorted economists who assure us that tight money will, at some nebulous time in the future, be relaxed. None of these things, however, seem to have the real flavor of a true event and the market remains locked in the 740-760 range in terms of the Dow.

One of the problems is that, at the moment, it is difficult to see just what the event that will turn this market might be. The major preoccupation at the moment is tight money so that it would be logical to expect that something having to do with the relaxing of monetary strictures might provide the upward spark. The problem is, of course, that a relaxation of monetary policy is unlikely to cause a single dramatic happening productive of banner headlines. The Fed is not going to signalize a return to easier money by opening the windows and shoveling dollar bills out into Liberty Street. A drop in the prime rate is not expected before mid-year, and, in any event, this would be as much a symptom of reduced loan demand brought about by previous tight money as an indication that monetary stringency was truly being relaxed. Furthermore, monetary figures, because of their extreme fluctuations, are difficult of interpretation and it is doubtful that we shall know, for a certainty, that money is truly easier until a number of months after the fact.

We find it necessary, therefore, to continue to express the near-term skepticism regarding the market that we have evinced over the past few weeks. The scenario is set, quite obviously it seems to us, for an important reversal in the 14-month-old stock market downtrend -- one that will surprise the investment community with its vigor. It may very well be accompanied by an event such as those referred to above, which will provide the public with a convenient rationale for deciding stocks are a buy rather than a sale. Whether such a turn will occur here or at somewhat lower levels, however, is something that still remains to be seen.

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Dow-Jones Ind. 757.46
Dow-Jones Trans. 170.76

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