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**TABELL'S MARKET LETTER** March 13, 1970

The best way of getting the right answers is to ask the right questions, and this is as true of the stock market as anything else. Ofttimes one stock market question will be unanswerable while, at the same time, the answer to another question is quite clear. The present is a case in point.

One way of viewing the stock market is to ask whether the popular market averages are about to go up or down. This question, unfortunately, is not one which can be answered with any degree of certainty at the moment. As we have pointed out in recent issues of this letter, some constructive developments have taken place in the past few weeks. The intermediate-term downtrend from the November high of 871.77 in the Dow, has been violated; a minor upswing from the January 30th lows remains in effect, and the correction of this short-term advance has so far been orderly and characterized by relatively light volume. On the other hand, short-term objectives have been reached and most market averages are now in an area of heavy overhead supply. As we have pointed out repeatedly in the past, it is going to be the market's reaction to this supply which will determine the direction of the next move.

If we persist, therefore, in simply trying to guess the market's direction, we are unlikely -- immediately at any rate -- to get a clearcut answer. If, however, we ask another question, i.e., where is market leadership going to come from and what stocks are likely to be the best ones to own for mid-1970 -- recent market action has been providing us with a rather decisive answer. For analysis of individual chart patterns points clearly to the conclusion that we are entering one of those phases of changing leadership which periodically characterizes the market. Let us see if we can document this thesis a little bit further.

1969 was, as no one needs to be told, a rather poor market year, yet, for a great many stocks, the 1969 bear market was non-existent. IBM, for example, sold at 290 in early 1969 and above 380 in January 1970. Other computer stocks had even more dramatic advances, and similar performances were not uncommon in the drug, hospital supply, franchising and other industries. The applicable investment cliche to explain this performance became "visible earnings growth". 1970, it was reasoned, was a year of uncertainty for the economy, and the companies to own, therefore, were those whose earnings were going to grow almost under any conceivable set of economic circumstances.

The concept has become a bit tarnished of late. First of all, earnings growth is a very fine thing, but at some point even those issues with the fastest-growing earnings can become overvalued in relation to other stocks. Secondly, as a number of fourth-quarter reports have shown, some of the earnings growth which was so obviously visible in 1969 has become, all of a sudden, invisible or, indeed, non-existent. The end of the infatuation with growth-at-any-price is becoming manifest in the technical patterns of a great many issues and, as was pointed out last week, many stocks which advanced sharply in 1969 have not only declined dramatically from their 1970 highs, but also appear vulnerable to further price erosion.

Meanwhile, clues as to new market leadership begin to assert themselves. The shape of the economy for 1970 is beginning to emerge ever more clearly. We are, quite obviously, in the midst of the fifth post-war recession, and it will, at some point in time, be characterized by easier credit conditions, lower interest rates, and, ultimately, a business recovery. In prospect of the recession, a great many stocks have been battered down to levels which reflect not only possible lower earnings, but disaster which is highly unlikely to occur.

Thus, we have phenomena such as the following; the Dow-Jones Utility Average, battered by high interest rates in 1969, advances on the recent recovery, roughly twice as much as the Dow-Jones Industrials. U.S. Steel, down 33% in 1969 to a 10-year low, suddenly stages a 25% advance. Savings & Loan issues, obviously beset by savings outflows and other well-advertised troubles, become the leaders on the upside in the recent rally.

The investment thrust has quite clearly shifted in recent months from those issues with sustained growth patterns to issues which could do well in conditions of economic recession, or which have been battered down to ridiculous levels in anticipation of that recession. It is from these areas that 1970 stock market leadership is likely to emerge.

ANTHONY W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. 772.11
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