FILE

Walston & Co.
Inc

Members New York Stock Exchange
and Other Principal Stock and Commodity Exchanges
OVER 100 OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER April 24, 1970

In most discussions of last week's stock market, three catch-phrases seemed to pop up repeatedly. They were "oversold condition", "bear market" and "pessimism".

They were, indeed, appropriate in light of the continuing abysmal performance. The week featured five more days on which declines exceeded advances, making it fifteen consecutive days now that this melancholy condition has existed. Wednesday and Thursday featured 10 and 12-point declines in the Dow with over 1100 declining stocks on both days, and on all five days of the week the erstwhile glamor issues of late 1969 continued to post multi-point losses on heavy volume. What was going on in listed stocks was a virtual picnic compared to the carnage being wrought in the over-the-counter market where bids for a number of issues virtually disappeared. Thus, the three phrases mentioned above certainly had a great deal of validity as far as the week's market action was concerned. It is, however, worth exploring each one and placing it in context.

"Oversold condition" is, unfortunately, a much misunderstood term. The existence of such a condition is, contrary to the belief of many investors, absolutely no guarantee that the market will go up. Indeed, the most vicious parts of severe market declines tend to occur at times when the market is already deeply oversold. The oversold condition simply remains in effect or gets deeper. The existence of an oversold condition means only that the market has reached a stage from which a rebound, when it occurs, could be of significant dimensions and that, from a time point of view, a reversal is probably fairly near at hand.

Now, today's market, by any measure one cares to use, is, in fact, deeply oversold and we think it likely, based on this fact, that, within a fairly short period of time an important reversal will occur. The existence of the oversold condition, however, gives us absolutely no clue as to the level from which such a reversal might take place. Thus, unless marked reversal evidence occurs, and it certainly did not occur this week, it is difficult to get optimistic about the near-term market picture.

As to the phrase "bear market", used to describe this week's decline, it is probably a valid one, but hardly new. Essentially, as we have pointed out in the past, the Dow-Jones Industrial Average has been within the confines of a 100-point wide downward channel ever since December 1968. As of early this month, with the Dow at 790, the market had a chance to break out of this major downtrend channel and failed the test miserably. Thus, the present retreat is squarely within the context of the long-term downtrend that has existed for well over a year.

And yet, we think the market atmosphere at this stage is a great deal different than that which existed in early 1969. Since July 1969, there have been a whole series of market downthursts of which the present one is the fourth. Each one has been more or less severe, depending on what sort of market index one was looking at. The present drop is particularly severe in the American Stock Exchange Index and moderately so in the broad-based New York Stock Exchange and Standard & Poor's 500, all of which, last week, carried to new lows for the move. It is least severe in the Dow-Jones, which is still holding above its January low and which is down, so far, only a bit over 5%. The Dow Utilities also remain well above their lows of last January.

We are inclined to take some comfort in this statistic simply because it is the sort of action that tends to take place during the terminal rather than the early phases of a decline. Such phases are generally featured by liquidation of past speculative excess and relatively less vulnerability in the investment-grade segment of the list. This is precisely what we are seeing at the moment and the technical patterns of better-quality issues indicate that more-than-modest drops in the future are unlikely.

The final phrase descriptive of the current market is "pessimism" and, indeed, this feeling is unquestionably building up as the market moves into lower levels. We must confess we find this encouraging. What, in retrospect, was wrong with the February-March advance was the fact that too many people were ready to hail it as the end of the decline and the beginning of a new market upswing. This is generally not the case at the start of a real bull market. If, when the next rally occurs, we are widely assured that it is only temporary, the odds of a real reversal having taken place will be that much greater.

Dow-Jones Ind. 747.29
Dow-Jones Transp. 161.82

ANTHONY W. TABELL
WALSTON & CO. INC.

AWT:amb

WN-301