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TABELL'S MARKET LETTER May 29, 1970

Last week's market performance was, at once. both typical, and yet, historically without precedent. The market's mood turned almost simultaneously at mid-week from one of unchanged pessimism to rampant optimism, and what had been one of the steepest declines of recent years was transformed into the sharpest rise in three decades.

The week began with another sickening 20-point slide in the Dow to a low unmatched since early 1963. On Tuesday, the decline continued with the Dow slowly eroding by 10-points to an intra-day low of 627.46, a figure which may yet achieve historical stature as the low point of the 1969-1970 crash. Despite the down market, Tuesday's action had in it the first seeds of a reversal as 17-million shares changed hands, up from 12 million in Monday's trading. What obviously was taking place was that the selling wave was being met by bids of considerable size. Wednesday's market was the inevitable climax, a 32-point rise in the Dow, the largest on record, again with 17 million shares trading. Then, almost unbelievably, the advance was further extended on Thursday with a 20-point gain and yet further extended on Friday as the Dow crashed back through 700 in a 16-point advance.

As we said above, the performance was, in one sense, typical. It is not being overly blase to say "If you've seen one selling climax, you've seen them all". The ingredients were all there, the slough of despond, the plunge to new lows, the pickup in volume, and, finally, the abrupt turnaround. Major downswings have ended this way in the past and they will end this way in the future.

Yet, in another sense, as we said, this one was historically without precedent. There were those who, at week's end, were shrugging off the performance as a typical technical rally. This seems to us the worst sort of superficiality. The rally was, on a demonstrable basis, the strongest short-term upswing of the entire post-war period and of a type that, inevitably within that period, has been associated with major market bottoms. It would be the height of folly to ignore this clear-cut message.

Let us cite a few statistics. Wednesday's advance was 5.07% on the Dow and a similar amount on the S & P 500. No one-day advance of a similar magnitude has occurred since 1940. There have, indeed been only three occasions in the post-war period when a one-day advance in excess of 4% has taken place each one of these occurred at the terminal point of a major decline in 1946, 1957, and 1962. Over a two day period the Dow advanced 8.4% and the S & P 7.6%. Again this figure is totally without precedent. To add one further statistical note, on Wednesday, 1312 issues or 80.5% of all issues traded advanced. This is a record for the post-war period and again, historically, an advance ratio in excess of 75% has finally in the past been associated with major bottoms.

Now, before we are taken to task for having an unduly short historical prospective, we will admit that all of the above figures refer to the post-war period only. There were, admittedly, a number of sharper one and two-day reversals throughout the 30's. However, it is also true that, during the 30's, the downswings tended to be a great deal sharper. We think, at the moment, it would be dangerously unproductive to assume that the game is being played by the rules of the 30's rather than those of the present day.

It is, in summary, our judgment that the effective bottom has been reached. The use of the word "effective" is calculated. It would not be without precedent for the market to move back to or through the old lows Indeed, in every base formation that has occurred in the past, a testing of the lows has taken place and in some cases, June, 1962 being a typical example, that test involved the penetration of the former low by a significant amount. In most such cases, however, better-grade issues have stubbornly refused to move back to new low territory the second time around. It is highly probable, in other words, that a significant number of listed issues saw their 1970 lows at last week's prices. Quite obviously, some consolidation will be needed, and a rally which has now extended 70 points in three days cannot be extended indefinitely. We think the message of the rally, however, is clear-cut and investors should pay careful attention to it.

Dow-Jones Ind. 700.44
Dow-Jones Trans. 144.46
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