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**TABELL'S MARKET LETTER**

July 2, 1970

There comes a time, usually in the terminal stages of bull markets, when all the available financial news is good and the clouds in the economic sky, if any, appear as only specks in the distance. Often there are vague, sub-surface indications of trouble ahead, but these become dwarfed in the prevailing euphoria of the times.

Viewed with 20/20 hindsight, the end of 1968 and the early part of 1969 obviously constituted just such a period. Earnings were increasing; stocks were advancing, and there appeared to be no limit to the price the market was willing to pay for a whole host of companies whose earnings were, with apparent certainty, going to rise an ever-accelerating curve on into the infinite future.

To be sure, the seeds of collapse were present and could be detected with a sharp eye. Inflation was proceeding at an increasing rate, and the beginnings of the monetary stringency obviously called for to stem that inflation were beginning to be seen. The rest, as, some 300 points lower on the Dow, we are sadly aware, is history.

It is interesting to contrast the situation at that time with the present one, which is almost the diametric opposite. The dominant financial news at the moment heralds disaster or, at least, pending disaster. The most obvious example, of course, is the Penn Central bankruptcy and the accompanying concern regarding a possible national liquidity crisis. It is not our intention to minimize the importance of the Penn Central debacle or to ignore the very real probability that other companies, of equal or greater size, may well follow Penn Central into the courts. We are simply noting that the liquidity problems now facing numerous American corporations are by now pretty well advertised ones and have had ample time to be reflected in stock prices. There is an old adage that when financial news works its way from the business section to the front page, it is best ignored. Such may be the case here.

Meanwhile, again in contrast to 18 months ago, the subtile, dimly-seen portents may be heralding improvement rather than deterioration. To take one example from the market's technical action, let us consider for a moment recent odd-lot statistics. Without going into detail on the interpretation of these statistics, suffice it to say that, while the market has been drifting lower, the ratio of odd-lot sales to purchases has been rising, odd-lot volume as a percentage of total volume has been decreasing, and odd-lot short sales have been moving up sharply. All these are trends which, if continued, could have encouraging significance.

Likewise, on the fundamental front, there are signs that all is not lost. Fortune Magazine headlines its economic forecast this month "The Great Turnaround" and says "The U. S. economy has turned the corner on its 1970 readjustment". At the same time, the Federal Reserve Bank of St. Louis, the most respected advocate of the monetarist economic position, concludes that "the current hesitation in economic activity has been more moderate than in the three previous recessions", although further expressing the reservation that recovery may be slower than in past periods. It may just be possible that we are about to achieve the neat trick of slowing down inflation without causing an economic downturn of undue seriousness.

Now all this could be cancelled out by a wide wave of bankruptcies or any one of a number of potential economic disasters. But it remains true that many stock prices are at levels which are patently silly barring only the possibility of economic collapse. Should this collapse not materialize, the probability of many of these stocks doubling in price over not too long a period does not appear remote. But nobody talks about doubles any more. That sort of talk was characteristic of 1967 and 1968.

Dow-Jones Ind. 689.14
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