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TABELL'S MARKET LETTER

July 17, 1970

As New York baseball buffs are aware, there is a fan who sits regularly in the left field seats at Shea Stadium. When the home team makes some particularly exciting play, he holds up one of a number of signs such as "Very Interesting", "Amazing", or, occasionally, "Stupendous". The gentleman and his signs would have been useful in a Wall Street boardroom this week.

For after a couple of days of hesitation on low volume, Monday and Tuesday of this week, the stock market rally continued with a vengeance, posting a 30-point advance in three days and reaching a new intra-day recovery high of 739.46. The Dow-Jones Industrial Average, in other words, is now over 100 points higher than it was at the May 26 lows less than two months ago, confounding those investors who were falling all over themselves to dump stock during the May panic and who have nervously been hoarding their cash ever since.

As we said in our letter of May 29, 1970, three days after the low was made, "It is, in summary, our judgement that the effective bottom has been reached". The intermediate-term uptrend since that bottom occurred has now been extended to a 16.4% advance in the Dow-Jones Industrials. To a degree, this is unprecedented in the post-war experience. In no case since 1949 has the Dow advanced by 15% or more without that advance being part of a new recovery move which carried to or close to new high ground. In other words, if one looks solely at the percentage magnitude of the advance, it is possible to make the argument not only that we have seen the lows, but that we are witnessing the start of a new bull market.

Such optimism, we are afraid, would be premature. The recovery of the past 37 trading days has been the most dynamic in the past 20 years. It must also be pointed out, that, it followed the most precipitous decline in the past 20 years. It has generally been the technicians practice to measure a rally in terms of the percent of loss recovered. In this sense, the present advance can be fitted directly into the context of the post-war experience.

Between December 1968 and May 1970, the Dow dropped from 995 to 631, a total of 364 points. At Friday's close, it had recovered 104 points or 28% of the total ground lost. Comparing this with previous declines, in 1966, the Dow, by November, had recovered 32% of the points lost. By August, 1962, 45% of the points lost in the 1961-1962 slide had been recovered. In 1957 and 1946, the comparable figures were 41% and 46%. If the recovery rally were to equal 1966 a 116-point advance to 747 would be called for, and, if the earlier experience were to be duplicated, the average could sell over 800.

Based on point and figure analysis of the Dow pattern, this sort of strength would not be surprising. Since early May the index is held in a trading area bounded largely by 725 on the upside and 676 on the downside. This base was penetrated decisively in Friday's strength, and various objectives are readable, ranging from a conservative 775 to a more optimistic 825-850.

We frankly think the continuation of the strength to the 775-800 area is a distinct possibility. We are unable at the moment to envision a great deal more than this, simply, since an analysis of the patterns of all listed stocks quite clearly reveals that the ingredients for a broad advance are not yet present. A number of stocks, notably including some of the Dow components, have the potential for substantial intermediate-term moves from this level. The great bulk of issues, however, remain hovering around their bear market lows with very little in the way of a base having been formed.

This is confirmed by the disparity in patterns between Dow-Jones Industrials and the broader Standard & Poor's 500-Stock Index. While the Dow has penetrated a base formation with the objectives noted above, the S&P has failed to attain a new recovery high and, were it to do so, it would be difficult to read an objective much above 83. This would be a percent advance considerably smaller than that of the Dow, and would be a phenomenon typical of this stage of the market.

We think the pattern in summary calls for a further extension of the advance after which a new pattern will have to form, giving a clearer picture of the long-term potential. Since April we have been stressing that basic policy should involve the purchase of quality stocks on weakness. The recent strength underscores the appropriateness of that policy and we continue to advise it.

Dow-Jones Ind. 735.08
Dow-Jones Trans. 128.73

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