FILE

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MEMBER NEW YORK STOCK EXCHANGE
MEMBER AMERICAN STOCK EXCHANGE

August 21, 1970

One major recent change in the technical action of the stock market is that it seems to have become a bit more reliable. Short-term downside projections which, during 1969-1970, were mere way stations to be bypassed on the way down, now seem more valid. For example, the downside objective of the July top in the Dow-Jones Industrials was 705-690. On August 13, the Dow reached an intra-day low of 702.83, moved sideways for a couple of days, and promptly produced a four-day advance which took the index to a new recovery high.

As we noted last week, the market is now approaching a very interesting and crucial test, and we have some confidence in that test's being successful. Our upside objectives for the Dow center on the 775-825 area, and recent technical action has given us no reason to think that this target might not be attained. We are assuming, therefore, that, within the next six weeks, concrete evidence of the bear market end may be at hand.

Assuming this evidence does emerge, the problem becomes to guess what shape the new stock market of the early 1970's will take. If one were to rely on the predominant experience of this century, the end of the bear market should signal, quite simply, a bull market -- in other words, a move by the popular indices to and through the old highs. It is interesting to contemplate this prospect, since it is, at the moment, the one possibility almost nobody appears to be hedged against. The number of investment managers who accumulated cash at the bottom and who would be further embarrassed holding that cash through a protracted upswing must be legion. However, while the thought is emotionally satisfying, it must be admitted that there is nothing in the present technical pattern which would suggest that a major advance is in the offing. Our reading of this pattern leads us to go along with the popular view that a protracted period of base building is required.

Since this sort of thing appears to be what most analysts, including ourselves, are, in fact, forecasting, it is worthwhile trying to get some idea of just what such a period might look like. There are, over the past 50 years, only two instances of a protracted reaccumulation formation following a severe decline. These are 1938-1942 and 1946-1949. We have, therefore, constructed, in the tables below, two forecast models which show where the Dow would be at various dates in the future, if the percentage retracement swings of these two eras were precisely duplicated.

1938-1942 MODEL

Date	DJIA
June 1970	713
July 1970	664
December 1970	852
May 1971	715
October 1971	842
July 1972	679
December 1972	776
June 1973	692
September 1973	747
June 1974	609

1946-1949 MODEL

Date	DJIA
September 1970	784
November 1970	630
February 1971	801
September 1971	647
December 1971	847
November 1972	620

A few interesting facts may be noted. First is the accuracy of both models to date. The 1938-1942 model forecast a rise to 713 in June, and the actual high was 720. It then called for a July decline to 664 and the actual July low was 669. It is also interesting to note that both models suggest a continuation of the present advance over both the near and intermediate terms. The 1946-1949 model would have us at 784 next month, and the 1938 model would call for 850 by the end of the year. The 1946 model would take us above 800 by early 1971. Both models would indicate that, while prices below current levels are probable, they are unlikely to be seen for some time.

Certainly we are not forecasting either model will be duplicated precisely. Markets simply do not behave that way. But, in view of the large number of analysts claiming that a protracted basing period is needed, the models give us an idea of precisely what we are talking about when we speak of such a period.

Dow-Jones Ind. (11:00 a.m.) 735.90
S&P (11:00 a.m.) 78.29
AWT:mn

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