

TABELL'S MARKET LETTER

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Now that the dust has settled, it is possible to stand back and take a look at the rather amazing stock market action of December, 1970 and try to assess its probable significance.

As we all are aware by now, during the last week in November and the first week of December, 1970, the stock market went up. Furthermore, it went up a lot. On November 18, just over three weeks ago, the Dow closed at 754.24. It advanced for the next 12 consecutive days reaching a closing high on Monday of this week of 818.66 for a total percentage rise of almost 8%. On none of the last 11 days of the rally were there fewer than 800 advances on the NYSE, and on two days the number of advances exceeded 1000. The 1244 rising stocks on November 30 set an all-time one-day record.

Volume on the rise approached record levels and daily volume twice exceeded twenty million shares. In the process, the industrial index moved to a new high for the year, making it likely that 1970 may go down in history as an advancing year, a prospect which, in May, seemed, to say the least, remote.

Comment on the performance was mixed. There is a school of thought, admittedly dwindling, which seems to feel, that, for some reason, it is immoral for the stock market to go up at this point, and commentators of this persuasion tended to shrug off the performance. The more bullish were inclined to proclaim a new era.

The true significance of the rally can, we think, be understood by placing it in historical context. In order to do this, it is first necessary to answer two questions. (1) Was the advance really unusually large by historical standards? (2) If the answer is yes, what has been the past significance of rallies of this magnitude?

In answer to the first question, the best measure of the magnitude of any short-term rise is the peak average daily advance. In the present instance, this was chalked up for the 10-day period ending December 4, during which time the daily average advance was .797% on the Dow. Scanning stock market history since 1942, we find that this is only the twentieth time in 28 years that any rally has posted an average daily advance greater than .7% for an 8-12-day period. Thus, the rally was quite clearly unusual in a historical sense.

Granted the historical significance, then, what has been the aftermath of upswings of this type? The following table lists all of the 20 rallies cited above, together with the market action which followed.

<u>DATE OF RALLY</u>	<u>LOW & HIGH IN DJIA</u>	<u>PEAK AVERAGE DAILY ADVANCE</u>	<u>SUBSEQUENT MARKET ACTION</u>
1) June-July 1942	102 - 108	.73%	Bull Market Ending At 212 in June 1946
2) Mar-April 1943	129 - 136	.74%	"
3) Aug-Sept 1945	160 - 178	.83%	"
4) January 1946	189 - 203	.76%	"
5) November 1954	353 - 388	.82%	Bull Market Ending At 525 in April 1956
6) March 1955	391 - 415	.74%	"
7) November 1955	454 - 487	.88%	"
8) December 1958	466 - 499	.73%	Bull Market Ending At 744 in Nov. 1961
9) November 1960	575 - 612	.74%	Final Phase of 1961 Bull Market to 744
10) June-July 1962	535 - 590	1.14%	Bull Market Ending at 1000 in Feb. 1966
11) Oct-Nov 1962	558 - 630	1.04%	"
12) Nov-Dec 1963	711 - 767	.86%	"
13) Oct-Nov 1966	749 - 820	.70%	Bull Market Ending at 985 in Dec. 1968
14) January 1967	785 - 847	.77%	"
15) Mar-April 1968	825 - 910	.97%	"
16) October 1969	820 - 860	.82%	Market Rallied, Then Declined to 631 in May 1970
17) May-June 1970	631 - 713	1.27%	Rally to 818 in Dec. 1970
18) July 1970	669 - 735	1.23%	"
19) August 1970	707 - 765	.89%	"
20) Nov-Dec 1970	754 - 818	.80%	? ?

As the table shows, large short-term rallies have tended to occur almost exclusively at major bottoms, or in the early stages of bull markets. There are only two exceptions, January, 1946, when a rally occurred fairly near the top of a four-year upswing, and, most recently, in October of last year where a sharp rally preceded the decline to the May lows. The November, 1960 advance occurred fairly close to the end of the 1961 bull market, but it preceded that market's most dynamic phase. It is also interesting to note that a series of advances of magnitude equivalent to this one have occurred since the lows of last May. A repeated series of powerful short-term rallies has, recently, tended to occur around market bottoms, i.e., 1962 and 1966-1967.

We thus feel that the present rise signifies not an unhealthy condition, but the sort of latent buying power which, in the past, has fueled bull markets. We think that the strength shown in recent weeks strongly suggests a highly positive market environment for 1971.

Dow-Jones Inc. (11:00 a.m.) 825.58
S&P (11:00 a.m.) 90.18
AWT:mn

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