# TABELL'S MARKET LETTER

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Following the three-week period of torpor, which ended a week ago, volume has returned to the stock market, although, this time, the frenetic pace of trading has been accompanied by a good deal less upside progress. Most comments on the week's trading activity seemed to center around the attempts of the Dow-Jones Industrial Average to break the 900 level, a price level repeatedly attained during the week on an intra-day basis, but which, through Thursday at least, could not be achieved at the close.

A good deal of talk about 900, of course, was based on nothing more than the theory, which has always been somewhat incomprehensible to us, that a three-digit number ending in two zeros somehow has more significance than any other. It does, however, happen that the general area around 900 in the Dow does have more than passing importance and the reason for this importance is worth discussing.

The reason the present price area is of considerable significance is that it represents the most important level of overhead supply with which the 1970-1971 bull market has had to contend in its short nine-month life. The concept of overhead supply is, of course, basic to technical analysis. The theory states simply that when a stock -- or an index -- trades at a given price level for a protracted period of time and then moves lower, any subsequent attempt to penetrate the original price level will be met with some difficulty. The reason for this lies firmly grounded in human behavior. A stockholder who sees his stock hold between, say, 45 and 50 for some time and then break sharply to 30 is going to berate himself for not having taken the repeatedly-offered opportunity to dispose of his holdings above 45. It follows that any return to that level may well stimulate him to sell, and, if a sufficient number of investors act this way, supply is thus created, and the amount of supply is directly proportional to the amount of trading that took place at the original price level. The theory operates in exactly the same way on an average such as the Dow.

Now, for the three years, 1967-1969, during which the distribution leading to the 1969-1970 decline took place, the Dow held in a range between 760 and 990. The following table breaks this range down into 10-point brackets and shows the number of trading days and the total volume in millions of shares which changed hands at each of these various price levels. The numbers speak for themselves. The market spent more time trading in the 900-910 range and traded more volume at that level than any of the others. And, in fact, 38% of the trading days and 39% of the volume in 1967-1969 was spent in the area between 880 and 930, precisely where the average is today. As the market attempts to chew into this supply, it is logical to expect heavy offerings and thus high volume with little upside progress -- precisely what is, in fact, taking place.

| Price Level | No. Days This Level | Vol. This Level | % of Tot. Days | % of Tot. Volume | Price Level | No. Days This Level | Vol. This Level | % of Tot. Days | % of Tot. Volume |
|---|---|---|---|---|---|---|---|---|---|
| 760-770 | 1 | 12.84 | 0.14 | 0.15 | 880-890 | 56 | 621.37 | 7.70 | 7.48 |
| 770-780 | 1 | 11.88 | 0.14 | 0.14 | 890-900 | 57 | 666.86 | 7.84 | 8.03 |
| 780-790 | 11 | 132.07 | 1.51 | 1.59 | 900-910 | 64 | 738.97 | 8.80 | 8.89 |
| 790-800 | 8 | 88.54 | 1.10 | 1.07 | 910-920 | 49 | 597.65 | 6.74 | 7.19 |
| 800-810 | 17 | 190.63 | 2.34 | 2.29 | 920-930 | 55 | 646.75 | 7.57 | 7.78 |
| 810-820 | 17 | 168.20 | 2.34 | 2.02 | 930-940 | 40 | 472.28 | 5.50 | 5.68 |
| 820-830 | 27 | 278.45 | 3.71 | 3.35 | 940-950 | 26 | 333.04 | 3.58 | 4.01 |
| 830-840 | 44 | 469.11 | 6.05 | 5.65 | 950-960 | 26 | 349.68 | 3.58 | 4.21 |
| 840-850 | 56 | 567.59 | 7.70 | 6.83 | 960-970 | 20 | 291.10 | 2.75 | 3.50 |
| 850-860 | 42 | 428.21 | 5.78 | 5.15 | 970-980 | 11 | 180.78 | 1.51 | 2.18 |
| 860-870 | 48 | 514.42 | 6.60 | 6.19 | 980-990 | 4 | 61.98 | 0.55 | 0.75 |
| 870-880 | 47 | 486.70 | 6.46 | 5.86 | TOTAL | 727 | 8308.36 | 100.00 | 100.00 |

As we have suggested before, we expect the present test ultimately to be successful, at least insofar as the averages are concerned. We are, however, more skeptical of the ability of a number of stocks to penetrate comparable overhead supply and believe that, as this supply is reached, the market will enter a much more selective stage. The past nine months, during which almost all stocks shared, to a greater or lesser degree, in the general ebullience, are unlikely to be repeated.

Dow-Jones Ind. (11:00 a.m.) 897.18

S&P (11:00 a.m.) 99.25

AWT:mn

ANTHONY W. TABELL

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