TABELL'S MARKET LETTER

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The stock market last week continued to display the same sort of strength and vigor that has become its hallmark since last November. Monday's trading, coming after a week of sideways action, saw the 900 level on the Dow finally penetrated with an almost 10-point advance to a closing high of 908.20. This advance was further extended in early trading Tuesday before reaction set in which continued through noon the following day. Then the tide was abruptly reversed and what had started as a seven-point decline turned into a day of almost no change. The advance continued on Thursday as a new bull-market high of 922.30 was reached. The action of the Industrials was mirrored in the Transportation Index which, early in the week, also reached a new peak, although here the follow-through was not quite as vigorous. Of more importance was the strength shown by the Utility Average which reached an intra-day peak of 125.70 on Thursday. Unlike the broader averages, the Utilities have been in a downtrend since the last week of January. An ability to reverse that trend would be constructive, and such a reversal would probably be signaled by a penetration of 126.50 on an intra-day basis.

The most recent phase of the rise, the one which began in mid-February, has, it must be admitted, displayed somewhat less vigor than some of the earlier stages. For the first time, breadth has begun to lag a bit behind the averages, and the new highs in the major indices posted a week ago were not confirmed by advance-decline action until this week's move. Also, as pointed out two weeks ago in this letter, high-low indices continued to show some deterioration. None of this, we hasten to add, constitutes anything more than evidence that the bull market is approaching a vigorous middle age. Confirmation of a new high by market breadth normally lags in all but the very early stages of a bull market, and the action of this week can be interpreted as nothing more than an indication that the bull is growing old gracefully. It would, furthermore, be logical to expect some minor weakness in view of the supply factors mentioned in this letter last week. Further evidence of the existence of that supply could be adduced from the late tapes which prevailed during the week's trading, suggesting an abundance of small offerings being absorbed as the market moved ahead.

While the bulk of technical analysis, in our opinion, should consist of sound statistical reasoning, there must be, it seems to us, a good deal of the subjective attached to the analyst's thinking. One of the subjective evidences of the market's strength, we think, is the fact that worries about the end of the bull market still persist. A question we are asked frequently runs something like this. "We know you are bullish, but what would the market have to do in order to make you change your mind ?"

The question is always a difficult one to answer. We have a difficult enough time as it is analyzing the lines already on our charts. The analysis of lines that may or may not be there six months from now is almost impossible. The first thing, paradoxically enough, that the market would have to do to show deterioration would be to post a decline of some magnitude -- something it hasn't done in over six months. We would then have a "bench mark" and the subsequent rally could then be viewed in the light of that decline and its ability to continue to a new recovery high. This, after all, is what technical work going back to the Dow theory is all about. It would not work, of course, if the market, after it precipitately moved to a new high, dropped off with equal sharpness. However, markets, historically, have not behaved that way. Declines of major proportions are invariably preceded by top formations and it is the job of the technician to recognize those formations when they occur.

Portfolio management in a bull market, it seems to us, is much like driving a car at night. The headlights allow a limited vision of the road ahead and, as long as it is clear, the traveller proceeds in relative serenity. Quite obviously he remains alert, but, were he to continually worry about obstacles just beyond the range of the headlights, he would turn himself quickly into a nervous wreck. At the moment, all technical signals suggest that the stock market road ahead is clear, and the investor who worries about what might happen beyond his field of vision is dissipating a good deal of intellectual energy that could better be applied elsewhere.

Bull market conditions have been defined as conditions under which the investor, with application and skill, can achieve respectable results through selection of individual common stocks without regard to what market conditions might do to otherwise sound stock values. Such conditions, quite obviously, exist at the moment, and it is to the process of stock selection that the investor should devote his energies.

Dow-Jones Ind. (11:00 a.m.) 916.28
S&P (11:00 a.m.) 101.07
AWT:mn

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