TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

April 8, 1971

That friendly beast, the 1970-1971 bull, shook off another one of his normal periods of lassitude and began rattling his cage again late last week. After a 2-1/2 week period of dullness going back to mid-March, the market put on a reasonably good rally on Tuesday and Wednesday with the Dow reaching a new intra-day bull market peak of 925.94 confirmed by an intra-day high of 209.82 in the Transportation Index. Volume climbed along with prices and Wednesday's trading saw more than 22 million shares change hands.

Now it must be admitted that the momentum of November-February is no longer with us. As a matter of fact, the uptrend channel, which had contained the Dow since the November lows, was broken on the late-March decline. In the Tuesday and Wednesday rallies, advancing stocks outnumbered declining issues by, roughly, 800-500. Investors will recall that earlier in the rise, surges to new highs were invariably accompanied by well in excess of 1,000 advancing stocks. However, faulting the market on this point is like criticizing a driver who has slowed from 100 miles an hour to 80 miles an hour for making no progress.

Probably one of the most important determinants of investment success is adjusting one's psychology to the current phase of the stock market cycle. This is often a difficult thing to do, for the entire nature of that cycle mitigates against having the proper mental attitude. How many investors went rushing out to hock the family jewels and buy stocks last summer -- starry-eyed in the realization that equities were cheaper than they had been in over a decade? That wonderful commodity, 20-20 hindsight, tells us, of course, that this conclusion was correct, but last May, with Armageddon apparently at hand, there were precious few who actually believed it.

It has been pointed out that bull markets generally consist of three phases. The first consists of nothing more than the undoing of the under-valuation brought about by the previous bear market. In the second phase, the market begins to discount a changed set of economic conditions. And, in the third phase, of course, it begins to discount not the future but the hereafter.

The difficulty in maintaining one's psychological equilibrium during each of these stages is compounded by the naive persistence of the belief that, over the short run, fundamentals determine prices. Admittedly, over the long run, they are the sole determinant. But for the intermediate term, price is determined by a combination of fundamental factors and the extent to which the market has already adjusted to those factors. Thus, in the first phase of a bull market, we are invariably beset with lamentations about how the market has moved "too fast", how it has "outrun" any foreseeable improvement in corporate profits, and how it is "in need of" a correction. (Any resemblance in the foregoing to the comment we have been hearing for the past six months is intentional). None of the chanters of the foregoing incantations recall that, before the rise which worries them so deeply, the market had declined to a level which was objectively ridiculous.

Now it is our belief that the current upswing has moved into the second phase mentioned above, and it is the purpose of this letter to offer a few suggestions on the proper psychology for the investor to adopt. First of all, we think, as we get into the second and perhaps the third quarter, earnings are going to begin to improve, and as they do improve, invariably the consensus comment is going to change. The former worry-warts will suddenly become optimists, and we will be told that stocks should certainly not be sold, because, after all, the fundamentals are getting better. It will be conveniently forgotten that the Dow is already up 300 points in recognition of those "better" fundamentals.

Looked at another way, it is only necessary to glance at a chart of the averages for the past five years to see that, in the past, whenever the Dow has moved to the middle to upper 900's, it has tended to be a rather good sale. It might be worthwhile bearing this sobering fact in mind, as investment decisions are made in the months ahead.

Now, none of the above is intended to indicate pessimism, bearishness or even a belief that the market is likely to move lower on a short-term basis. It is simply to suggest that a great many stocks, at least, have returned to what can be called a normal price level. And from such a starting point, one has to be more sure than ever of dramatically improving fundamentals before a given issue can be considered particularly attractive. In purely technical terms, the current market phase is where selectivity begins to rear its ugly head. It is a period where portfolio switching becomes more important and, where, in the case of a fair number of stocks, profit-taking should be considered. And, while the investor remains aggressively committed and watches his portfolio value rise, he should be prepared to regard an increasing level of bullish comment with a progressively more jaundiced eye.

Dow-Jones Ind. 920.39
S&P 102.10
AWT:mn

ANTHONY W. TABELL
DELAFIELD, HARVEY. TABELL