TABELL'S MARKET LETTER

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MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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Diligent readers of the Wall Street Journal must, over the past week, have been buoyed to unparalleled heights of euphoria. On April 21, the lead headline read "Onward and Upward. Experts Now Say it is Just a Matter of Time Until the Dow Index Hits 1,000". In yesterday's issue we were provided with a rationale for this optimism when the lead story revealed that first-quarter earnings for 573 companies rose 8.4% as compared with the first three months of 1970, the first year-to-year rise since the middle of 1969. The article went on to suggest the probability of continued improving profits for the remainder of 1971.

We trust we will be forgiven a somewhat cynical suggestion that by the time a piece of investment news reaches the front page of the Journal, it may be a bit late to base investment policy thereon. This is in no way intended to be a criticism of Dow Jones' excellent publication. It is only to draw a distinction between forecasting and journalism, which are two horses of radically different hues. The journalist who checks his sources and reports facts will seldom, if ever, be wrong. The forecaster must take considerably greater risks and will often wind up with egg on his face. It is, unfortunately, to the forecaster as much as to the journalist that the successful investment manager must refer in order to formulate profitable investment policy.

The two WSJ articles, therefore, invite some comment. Insofar as the prospect of the Dow's hitting 1,000 is concerned, we find ourselves in total agreement. Attainment of that figure should hardly be difficult constituting, as it does, a mere 5% advance. In fact, due to the construction of the Index, all that would be needed is for each Dow stock to tack on three points from Thursday night's close. Thus, the prospect of a new high, with the Dow, as it is today, at 950, is singularly unstimulating. The time to take advantage of that prospect was, of course, last year.

Now we do not claim that our own forecasting produced a blinding flash of illumination last summer revealing that the Dow, by mid-1971, would be flirting with new peaks. We do feel, however, that honest reading of technical and fundamental indicators, as time went on, suggested the increasing likelihood of that eventuality. Thus, we were able to suggest on May 29 (DJI 700) that the effective bottom had been reached, to indicate on August 28 (DJI 761) that the bear market was most likely over, to consider on October 16 (DJI 767) at least the possibility of a new high, and to state on December 4 (DJI 805) that such an outcome was indeed most likely. We mentioned, at that time, a target of 1065 which is the forecast we have used ever since. Likewise, in regard to earnings, we suggested on September 25 (DJI 761) that earnings would probably bottom out in the fourth quarter of 1970 and advance in the first quarter of 1971.

Now our intent here -- honestly -- is not to vaunt our own record. We could, we readily admit, have cited an equal number of our past forecasts which have turned out to be gloriously wrong. We are venturing only to suggest that the items now appearing in the financial press are more explanations of why money was made in the stock market in 1970 than reasons why it will be made in 1971.

For when we attempt to forecast rather than report, problems indeed arise. We are in a bull market, there is no doubt of that, and it is equally indubitable that there is no sign of deterioration whatsoever. Certainly, the most probable short term prediction is that the market is headed higher and will, in due course, exceed the 1,000 level. Beyond that point, we see through a glass darkly, and in this connection we would like to recapitulate a number of points we have raised in past letters.

The first is the fact that the secular uptrend which provided the market framework of 1942 to 1966 was decisively violated two years ago. The present slope of the secular trend, as best we can measure it, is flat. This makes forecasting a price level beyond the 1,000-1,100 level a difficult task. Secondly, as the Dow moves ahead to around 1050, as we think it will, its yield based on past 12-months dividends will approach 3%. This is a level which has turned it back in, reading backward, 1966, 1962, 1959, 1946, 1938 and 1936. Now, with the excellent earnings outlook, dividends will, of course, be raised somewhat, but the desire for corporate liquidity will mitigate against wholesale increases. There is, moreover, the evidence cited in our last two letters of declining cash reserves on the part of the institutions who have fueled the market so far, coupled with no indication, as yet, of increased public participation. This, of course, history tells us should come later, but the point is it has not yet manifested itself. Recent monetary policy also raises troubling questions concerning the economy and inflation, on which we expect to be commenting in future issues.

All these things make a forecast at this point in time a rather difficult task. And, luckily, for the investor, one is not really needed. If he is fully invested and the market is likely to be higher in six months, there is little point in his worrying where it will be a year or two hence. This being the case, we ourselves would prefer not to peer too far into the murky future until the portents become clearer.

Dow-Jones Ind. (11:00 a.m.) 944.63
S&P (11:00 a.m.) 104.20

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