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

June 4, 1971

There is an axiom, long familiar to practicing technicians, that the market will always do that which makes the analyst's job the most frustrating. This week's action, which saw equity markets rebound sharply from last week's intra-day low of 899.94 on the Dow to an intra-day high of 929.60 on Thursday, proved no exception to the old saw.

We suggested in last week's letter that a market forecast would have been much simpler had the move been in the other direction, i.e., had the Dow moved on to new lows instead of reversing its course this week. Such a decline, we suggested, would have been unlikely to prove severe and would have, in our view, provided a minimum-risk buying opportunity. However, the market refused to accommodate and chose to rebound from the deep oversold condition which, on a short-term basis, existed at the end of last week.

The psychology behind the May weakness and, by extension, last week's strength is interesting. The month-long 5% downswing coincided with the first major weakness in bond markets since the sharp decline in interest rates began last summer. Likewise, the market turned on news of a firming bond market and the suggestion by a number of economists that the decline in senior securities was about over, and prices might well be significantly higher by the end of the year. This is yet another demonstration of how deeply the experience of 1969-1970 is seared into the minds of most investors. Those years saw a major bear market in equities, caused in large part by stringent monetary pressures, skyrocketing interest rates, and chaotic bond markets. At the first sign of a repetition of these conditions, even on a drastically reduced scale, the market responded by moving lower.

One of the reasons, of course, why bear markets catch so many unprepared is that memories are short. Investors are always most sensitive to the conditions which brought about the last bear market and tend to forget that downswings can be caused by a variety of factors. 1957, for example, was related to a rather steep business recession to a degree not paralleled by any subsequent bear market. 1962 was unrelated to anything taking place in the economy or the money markets and was purely technical, reflecting the fact that stocks had reached untenably high prices despite a fundamentally sound outlook. What the root causes of the next bear market will be it is impossible, at this point in time, to say. But we are willing to hazard a guess that they will be entirely different than the factors which brought about 1969-1970. And those who sat through the 1970-197 ? advance nervously awaiting a return of 1969-1970 conditions will, not surprisingly, be caught unawares.

Meanwhile, whither away? The time has come, we think, when a little mild hedging is in order. After the first full-scale technical correction in 10 months, we now have a benchmark by which to measure the equity market's future performance. Were the present rally to continue on good breadth and volume, ultimately forming the sort of base that would indicate a move to new highs, the continuance of the major upswing would be strongly indicated. On the other hand, as we have been suggesting for the past two weeks, potential distribution does, in fact, exist and would be further broadened by a weak rally. This distribution could make the upswing more vulnerable than it has been at any time in the past.

For the present, at least, we are willing, from a policy point of view, to operate on the assumption that the present test will be passed successfully and that, after some consolidation, new highs will be duly recorded. Part of this optimism is centered around the largely spurious nature of the recent weakness -- spurious, in that, as suggested above, it was based on fears that were essentially unreal. Another cause for optimism is the fact that the nascent business recovery has not, in our view, been reflected in the price of a good many issues, notably those cyclical stocks which have the most to gain from a business upturn. This is, interestingly enough, reflected in the technical patterns of a great many cyclical companies, which withstood the decline well and are rallying smartly. Such issues deserve a place in portfolio policy, a policy which still, in our opinion, should center around a strong commitment to equities.

Dow-Jones Industrial (11:00 a.m.) 920.53
S&P (11:00 a.m.) 101.07
AWT:mn

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL