TABELL'S MARKET LETTER

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August 27, 1971

We confessed in last week's letter the desire to wait for a bit more evidence before pronouncing the market totally recovered from its pre-Nixon debacle. We must admit that last week's performance went a long way toward providing that evidence. In a powerful extension of the rally on Monday, Tuesday and Wednesday, the DJIA chalked up a 27-point advance before turning irregular at week's end. In the process, the blue-chip index penetrated the trading range between, roughly, 840 and 900 which had contained it since mid-June and which can, we think, be properly assumed to be a base. The rally since the August low has, moreover, been accompanied by highly satisfactory breadth. Our breadth index moved above its comparable late June peak on Wednesday -- the same day on which the Dow scored its upside penetration. This coincidental confirmation is generally the precursor of a reasonably healthy rally.

If we are convinced that the path of least resistance is upward, harder questions such as "How Far?" and "For How Long?" are immediately raised. In attempting to find answers, it is well to recall that we cannot erase past history. It is a fact that between April 28 and August 10 the Dow posted a 11.7% decline. It is a fact which we will have to keep in mind regardless of what the market does from here on out.

Let us try to clarify this. Short-to-intermediate-term market downswings are often called, in technical parlance, corrections. The term is semantically unfortunate. The implication is that somehow, having undergone a decline of some magnitude, the market has mysteriously purged itself and is thus in a better technical position than it was before. This is like saying that a man who has recovered from a near-fatal disease is a better health risk than he was before the disease's onset. The stock market has just proved that it was vulnerable to a 110-point decline. That vulnerability has to be kept in mind in the future.

This is precisely what we had been trying to suggest statistically before the Nixon rally reversed the intermediate term downtrend. A month ago we pointed out that a reading of the record showed that declines of the present magnitude had seldom, if ever, occurred in the early or middle stages of bull markets. They were, indeed, more characteristic of top formations and/or bear markets and, to the extent that they occurred within the context of major upswings, tended to occur late in those upswings. The recent improvement in the market's technical condition has not changed the statistical evidence.

With this background, then, we can approach the question of trying to forecast upside targets. The base referred to above, at 840-900, indicates an upside potential of 940-945 on the Dow. in other words, a return to approximately the level of the April high. In order to forecast higher levels, it is necessary to go back to the original base from which the 1970-1971 rally commenced. This base, as we pointed out as long ago as last Fall, has a possible potential of 1065. The reading, although called into some question by the action of this Summer, is still a valid one. To put it into perspective, however, it should be recalled that such a move could be produced by a rise of as little as 9 points in each of the 30 Dow stocks.

What we are saying in terms of individual issues, of course, is that the rise, as it continues, must inevitably develop greater selectivity. The recent market weakness inflicted damage on the technical patterns of a great number of stocks. In some cases, that damage has been or will be repaired. In others the injury is unquestionably more permanent.

It is possible at almost any time, other than in the final throes of bear markets, to find, among individual stock patterns, a number of reasonably attractive ones. Such is the case at the moment. The difference between the early and later stages of upswings is not so much in the existence of attractive patterns but the fact that, in the former case, almost no patterns at all indicate any substantial degree of downside risk. This is most emphatically not the case at present. The presence of this sort of risk in a number of issues is what we mean when we use the much-abused catch word, "selectivity."

Dow-Jones Industrial (11:00 a.m.) 909.02
S&P (11:00 a.m.) 100.58
AWT:mn

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