TABELL'S MARKET LETTER

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The dust has now settled a bit in the three weeks that have elapsed since President Nixon's economic message, and the state of the stock market has changed from one of frenzy to one of comparative normality. Following the sharp upside penetration of the 840-900 area, the Dow spent most of last week reacting and testing the upper part of that area. In the process, most short term indicators have returned to moderately oversold territory, and the normal expectation, after further digestion, would be for the advance to resume, first penetrating last week's peak at 910 and later making an assault on the April 28 high of 950.

Of course, forecasting an improved market climate is one thing, and determining proper investment behavior should the forecast materialize is yet another. Recent readers of this letter will no doubt have noted a tendency toward increasing skepticism as prices advanced for some time and which we enunciated as long ago as last December in issuing our forecast for 1971. In that forecast we suggested that the Dow might well attain a new high -- moderately above 1000 -- in early 1972, and indeed the current picture makes it possible, at least, that this forecast will be attained. However, in making the forecast, we said "It must be noted that this is in sharp contrast with the sort of upswing typical of the period between World War II and the mid 1960's. At that time, advances tended to last three to four years and involve rises of around 100%. Our forecast environment is more similar to the 1966-1968 upswing in which a 32% advance covered a 26-month period. It is also worthy of note that, if our forecast is correct, the Dow at the end of the year will have remained in a trading range between 600 and 1000 for a seven-year period -- action quite dissimilar from the post-war experience".

Another way of looking at the same phenomenon is to observe that, five times in the past six years, the DJIA has penetrated the 950 area on the upside. In each one of the five cases, the penetration has been followed shortly by a decline of 100 points or more, the most recent instance, of course, being April-August 1971.

Why should this be? One's answer to the question will depend on his view of what, fundamentally, determines the general level of stock prices. With our own technician's bias, of course, we are prone to point to supply-and-demand factors rather than the conventional factors of earnings and economics. We think this is particularly true when talking about the general level of stock prices. We think that earning projections, in other words, may go a long way toward explaining the prices of different stocks relative to each other. We think they have precious little to do with the prices of all stocks taken collectively.

This price level, it seems obvious to us, will derive ultimately from the upside or downside pressure placed on the stock market by the net inflow of new funds available for stock market investment. This will derive, in turn, from the rate of personal and corporate savings. The portion of these savings directed to common stocks will depend in great degree on investor attitudes toward stocks vis-a-vis other investment media. From the resultant amount of money available for stock investment, one must deduct the number of new stock issues which will absorb this demand. The residual will then be the factor which tends to move prices up or down.

Now it is a fact that for the past six or seven years there has apparently been very little upward pressure on the general level of stock prices, and, it is very difficult to see, in presently available statistics, anything that would cause such upward pressure to resume. The level of new stock issues is approaching all-time peaks, and senior securities at current levels present the highest return relative to equities available in years. And there is, moreover, abundant evidence that the level of demand for equities characteristic of the 1950's and 1960's may no longer exist. Two commonly cited pieces of evidence are the sluggish rise in debit balances from last summer's lows -- despite the reduction in margin requirements -- and, of course, the swing of the last three months to net redemptions of mutual fund shares. The impact of this can be demonstrated by citing the fact that throughout 1968 and 1969 net new purchases of stock by the mutual fund industry frequently exceeded an annual rate of $2.5 billion. Yet, for the past 12 months, the net new money available to the industry has been less than $1 billion.

All of the above, it should be noted, is not a bearish forecast. Indeed, we purposely led off this letter with a discussion of the market's improved intermediate-term technical health. The reason we have been repeatedly raising the issue of the apparent change in the long term market pattern is that we think the evidence calls for a radical change in investment strategy and investor behavior. The entire history of the 1960's has been one of increasing acceptance of stocks as permanent growth vehicles and of the concomitant theory that one could achieve investment success by simply buying and holding the conventional growth favorites and ignoring stock market swings. This is a theory which will have to be altered radically if the pattern established in the latter part of the 1960's is in fact a permanent one.

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Dow-Jones Industrial (11:00 am) 903.48
S & P (11:00 am) 99.64

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