

# 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

November 12, 1971

Issuance of a market forecast at this time is, actually, a fairly easy task.

Now that statement is not made simply to raise the hackles of investors who watched their portfolio values erode further last week, as the DJIA plunged to a new 1971 low. It is, rather, meant to suggest that periods of sharp price erosion such as the present one are relatively rare in market history and, on those occasions when they do occur, a number of reasonably consistent behavior patterns are recognizable.

It was recognition of this fact which led us purposely to equivocate, last week, as to whether the rally which started on November 2, constituted the bottom of the 1971 price slide. We indicated that, indeed, a number of classic technical requirements for a selling climax had been fulfilled on that upswing, but we also suggested that there was ample historical precedent for bottoms to take place with more than one such selling wave. We pointed out that a number of indicators, while deeply oversold, had, as of last week, refused to suggest an imminent reversal and noted, "Before too long, (these indicators) will have signalled a definite reversal or, by their failure to do so, have indicated a continuation of the decline". Quite obviously, that continuation is suggested by last week's action.

The first thing a study of previous markets as deeply oversold as the present one tells us is the absolute futility of trying to pinpoint exact downside objectives. Quite obviously, from this point, selling momentum should continue to build until that level is reached at which demand for stocks will be sufficient to turn the market. What we can recognize from a study of market history is that whatever low is going to be reached is likely to be reached fairly soon. The market has been in a deep oversold condition for more than two weeks now and a period of much longer than a month in such a condition is a fairly rare phenomenon. Furthermore, we have now reached the stage where the ultimate rebound, when it comes, is likely to be more powerful the lower the market goes. Thus, the market climate, near term, may not be pleasurable, but it is almost certain to be exciting.

As to what happens after the ultimate reversal takes place, it is, of course, too early to make any but the most speculative guesses. It is not too early, however, to suggest a couple of factors which we think will be crucial to determining market action in the first half of 1972. As we all should be aware by now, the basic forces behind the stock price weakness since last Spring have been continued public disenchantment with the equity market and a reduced institutional participation which was not sufficient to take up public selling along with the rising level of new issues. Thus, to a great extent, in our view, the prospect for better future stock prices will hinge upon a reduced supply of stock coming from individuals and/or an increase in overall demand for U.S. equities.

It is easy to suggest the factors that might produce these two phenomena. Quite obviously, public funds have been diverted from the stock market in recent years by, among other things, record yields available from bonds. Were bond prices to continue their recent improvement, it seems to us axiomatic that the level of public equity sales might well be substantially reduced. On the demand side of the equation, the investor most conspicuous by his absence from the recent stock market scene has been the foreign buyer, obviously due to the uncertainty surrounding international monetary conditions. It seems, therefore, reasonable that continued lower long-term interest rates, coupled with a solution to international monetary problems, could exert a powerful upward force on the stock market over the next year.

Meanwhile, a few unanswered questions remain as to the present decline. One of this downswing's pronounced characteristics to date has been the miniscule extent to which it has affected a substantial number of stocks. Despite the fact that the averages are now at the lows of a vicious drop, now more than six months old, a substantial number of issues are within a few points of their 1971 highs. It may be, of course, that the final phase of the downswing will catch up to these relatively resistant stocks and eventually sweep them along with the tide. There is certainly ample precedent for this in the past. And yet, another unique factor about this decline, and indeed about the advance which preceded it, was the complete absence of any speculative phase -- the sort of thing that normally brings about the final wave of liquidation. It is, therefore, at least, possible that a fairly substantial number of issues will weather what remains of the current debacle relatively unscathed.

Dow-Jones Industrial (Noon) 807.68

S&P (Noon) 91.48

AWT:mn

ANTHONY W. TABELL

DELAFIELD, HARVEY, TABELL

No statement or expression of opinion or any other matter herein contained is, or is to be deemed to be, directly or indirectly, an offer or the solicitation of an offer to buy or sell any security referred to or mentioned. The matter is presented merely for the convenience of the subscriber. While we believe the sources of our information to be reliable, we in no way represent or guarantee the accuracy thereof nor of the statements made herein. Any action to be taken by the subscriber should be based on his own investigation and information. Janney Montgomery Scott, Inc., as a corporation, and its officers or employees, may now have, or may later take, positions or trades in respect to any securities mentioned in this or any future issue, and such position may be different from any views now or hereafter expressed in this or any other issue. Janney Montgomery Scott, Inc., which is registered with the SEC as an investment advisor, may give advice to its investment advisory and other customers independently of any statements made in this or in any other issue. Further information on any security mentioned herein is available on request.