TABELL'S MARKET LETTER

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We noted last week the importance of the 930-946 trading range which had contained the Dow during March, suggesting that an upside penetration of that range would indicate 956-960. The dilemma was quickly resolved when, with an 11-point advance on Wednesday, the Dow broke out of the aforementioned range and, by early Thursday morning, the suggested target of 960 had been reached. We also commented last week on the desirability of such a rally since it could provide a breadth confirmation which had been lacking to date. Whether this breadth confirmation will ultimately be provided is probably the most crucial question about the technical state of the stock market at the moment, and it is, therefore, probably worth discussing in some detail.

Technical market letters, this one being no exception, tend to talk glibly about breadth without defining precisely what they mean. Very briefly, the term breadth is a generic one for indices based on the number of advancing and declining stocks in a given day or week on the New York Stock Exchange. These numbers are readily available in almost any newspaper and their manipulation has been a prime concern of market technicians going back to the 1920's.

The conventional way of treating advance-decline statistics is to use them to create an index. The simplest such index involves simply subtracting the number of declines from advances each day and accumulating the figure. This process produces a line which can be graphed and is often referred to as the advance-decline line, more properly the raw advance-decline line since it makes no adjustment for the number of issues actually traded. Such an adjustment can be made by dividing the net difference of advances and declines each period by the total number of issues traded, and this more sophisticated index is perhaps the most widely used. Based on empirical observation, we have tended to favor an index produced by dividing the net difference by the number of stocks unchanged, and it is this accumulation we use in our own daily and weekly breadth indices.

Historically, the theory of breadth interpretation has held that each successive peak in the Dow-Jones Industrials should be confirmed by a like peak in breadth. The theory is that if such a high is not confirmed, leadership is becoming more concentrated in blue-chip issues, and the advance in the average is masking underlying deterioration.

This method of interpretation has had a historical record of considerable success in indentifying major market tops. For example, when the market peaked in December, 1961, breadth indices had reached their highs in May of that year and had stubbornly refused to confirm new highs posted by the average. In June of 1965, the Dow reached a peak of around 945, declined to under 840 and then rallied to over 1,000 in February, 1966. Breadth failed to reach a new high on this rally, thus successfully indicating the 1966 bear market. The 1968-1969 record is clear in retrospect although, frankly, it was ambiguous at the time. The Dow peaked in late 1968 at 985, and the subsequent rally in early 1969 carried only to approximately 970. At this point, the breadth index was dramatically below its former peak and it is clear that a non-confirmation existed here also.

In the present case, as we all remember, the last major peak scored by the Dow had been 950.82 in April of 1971. This was followed by the sharp decline into November of last year. The former Dow high was approximately equalled on March 6 and exceeded decisively in this week's rally. For the moment at least, both daily and weekly breadth indices have failed to confirm their April, 1971 peaks. This is the first potential failure of this type in the entire history of the 1970-1972 bull market. The following table shows the Dow and the breadth index at each rally peak on the way down in the April-November decline. Opposite these figures are the date the previous Dow peak was first penetrated on the way back up in 1971-1972. As can be seen, each successive penetration was confirmed by breadth and breadth figures until the March high and Thursday's high when breadth reached 935.75 failing again to equal the April, 1971 figure.

Date of Rally High	DJIA	Breadth Index	Date DJIA High Equalled	Breadth Index
April 1971	950.82	946.2	3/6/72	940.9
June 1971	923.06	930.7	2/28/72	936.1
July 1971	903.40	924.3	1/5/72	926.9
Sept. 1971	920.93	929.2	2/10/72	935.6
Oct. 1971	901.80	921.4	1/5/72	926.9

Now the current breadth index is not all that far below its historic peak, and it would not take much in the way of extension of the rally to bring it back through the April peak figure. Such delayed confirmations, moreover, are not at all rare. (There was a period of almost five months in 1963-1964 when breadth failed to confirm new highs in the Dow, before finally doing so.) We will, at the moment, however, be watching breadth figures closely since a continued failure of confirmation could turn what is now a tiny cloud on the horizon into something considerably more menacing.

Dow-Jones Industrial (12:00 p.m.) 955.22
S&P (12:00 p.m.) 109.12

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