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

May 12, 1972

During periods of sharply rising stock markets, Fall 1970 - Spring 1971 and November, 1971 until recently being examples, we constantly heard about the market being "in need of" a correction. The implication in this sort of commentary was that a rising market was somehow unhealthy and that a downswing would provide a sort of cathartic effect which would restore the market to a healthful condition.

Regular readers of this letter will recall that we expressed our impatience at the time with this sort of thinking. Yet, we confess that, at present, we think a correction would be a healthy thing for the equity market. The reason for this apparent shift of philosophy is really quite simple. A sharply-rising stock market suggests, not an unhealthy, but a healthy technical state, and as long as upside momentum persists, there is no reason whatsoever to expect that a correction is needed to improve the market's internal condition. But what we have been seeing for the past two months is precisely the opposite -- an obvious loss of upside momentum. Distribution, quite obviously, has been taking place and under these conditions a market correction, fulfilling the downside implications of that distribution before it becomes too extensive, would, in our view, constitute a tonic.

Viewed in this light, last week's market action must be construed as mildly disappointing. President Nixon's decision to mine North Vietnamese ports provided the market, which has, for the past month, been using Vietnam developments as an excuse to reveal its intentions, with a perfect rationale for a sharp decline. Such a move began conventionally enough on Tuesday with a 13-point dip in the Dow in a session which set an all-time record for the number of declining stocks. The decline, however, did not follow through. A low-volume rally on the last three days of the week cancelled the entire drop and returned most market indices to their week-ago levels.

Despite the end-of-the-week market strength, however, a developing short-term downswing at this stage must at least be regarded as a possibility. Were this to occur, it would be, based on the limited distribution which has taken place to date, difficult to envision that downtrend's developing into anything more serious than a decline to, roughly, 890 on the Dow-Jones Industrials or approximately 103-102 in the S&P 500. There continue to be two developments which could cancel out this implication. The first would be evidence of reaccumulation sufficient to suggest that the market was ready to test its mid-April peak. The other would be further distributional action at current levels which might eventually suggest a downside target worse than we are now able to envision.

When we back away from the confused short-term picture and examine the broad outline of what the market has done since the beginning of 1972, it is amazing how action to date has conformed to a pattern apparent months ago. The central tenet of our year-end forecast, issued in December, was that the market was, this year, likely to duplicate its 1971 performance, spending most of its time in a range between 800 and 950. It has, so far, exceeded that range for a 13-day period in mid-April after which it promptly returned to it. A decline to 890 at the moment would, of course, prolong further the time spent in that range.

We also suggested in our forecast letter that, were the 800-950 range to be decisively violated, that such violation would be likely in the latter half of the year rather than in the beginning. We still regard this as a possibility, and the pattern of a short-term decline followed by further market strength would fit precisely into the sort of market one would expect in an election year. We analyzed the election year pattern at some length in mid-January and suggested that one of the more interesting general tendencies was one toward a relatively flat first half. After moving ahead sharply through April, the S&P 500 is now only some 3% above its December close and a drop to the 103-102 downside objective would bring it just about back to its year-end level. However, the most consistent fact about an election-year market is the tendency toward a strong second half. As we noted in January, in 15 of the 18 election years since 1900 the average price for December has been higher than the average price for June. And, in only two cases were prices significantly lower in December than they were at mid-year.

Thus, if the market were to restore its technical health by a short-term drop and later to show second-half strength, 1972 would conform almost precisely to the standard election-year scenario. That there has been recent market deterioration is obvious, and the fact has been repeatedly noted in this space. To date, at least, that deterioration has not been sufficient to require an alteration of the basic market premises expressed by this letter at the end of 1971.

Dow-Jones Industrial (12:00 p.m.) 941.23
S&P (12:00 p.m.) 106.42

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

AWT:mn