TABELL'S MARKET LETTER

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DIVISION OF

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MEMBER NEW YORK STOCK EXCHANGE, INC
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Readers of this letter over the past few months can hardly fail to notice that it has been, to say the least, somewhat less than optimistic about the present level of stock prices. This opinion arose out of as honest as possible an evaluation of the available technical statistics and has been repeatedly expressed in the belief that awareness of these statistics would be of value to the investor. We are, nonetheless, cognizant of the fact that we may have come to sound like a broken record with our repetitive arguments for caution. So we propose this week to examine the bullish case, or at least to try to evaluate what upside possibilities appear to exist at the present time--playing the role, perhaps, of our own devil's advocate.

To begin with, the popular averages have remained, essentially, locked in trading ranges since the early part of 1972. In the case of the Dow, the top of this trading range is at around the 980 level on an intra-day basis, this figure having been approached in April, May, and again in August. The lower part of the range is at around 917, intra-day, which level was touched in early May, June, and again in July, with a couple of days of July trading actually moving somewhat below that figure. The broader-based indicies exhibit essentially the same pattern, although with a slight upward bias, in that they were, on their August rally, able to move to new all-time high territory by a modest amount.

Now it has been the supposition of this letter that this entire trading range would ultimately come to constitute an area of distribution, the reasons for this conclusion having been documented at some length. What we want to examine here is the argument that such is not the case and that the trading range will ultimately be penetrated on the upside.

If we are to designate the March-September formation as intermediate-term in nature, the relevant short-term formation is a subsidiary trading range, delineated by 945 and 980, which contained the Dow in late August and early September. This area was penetrated on the downside shortly after Labor Day, and it must be noted that the downside objective of that top, roughly 936, was attained at last week's low. The area around the low 930's on the Dow is of more than passing interest from a technical point of view. It is, first of all, the general area where the index has bottomed three times before and thus constitutes a plausible support level. Moveover it constitutes the bottom of a computer-calculated trend channel running from the November 1971 low to the August high. If a rally then were to occur, 930-935 was certainly a logical area to expect such a rally to begin.

Indeed, just such a short term rally did, in fact, occur, sparked by peace rumors on Wednesday afternoon. It had some measure of conviction, with a ten-point advance in the Dow, more than 1,000 advancing stocks, and, after some hesitation, a convincing follow-through in late Thursday's and early Friday's trading. The course of the present rally will be highly interesting, for it will determine whether our recent pessimism has been well-timed or prematur If the advance, either immediately or after some period of basing, could carry through, on good breadth and volume, above the 974 level, it would suggest tha the March-September range did not have immediate downside implications and indicate the possibility of a further extension of the advance from the November lows.

The question of how far such an advance might carry is an interesting one. The most plausible upside objective would be in the area of 1020, fairly close to the 1065 objective which this letter first suggested as long ago as October 1970. While relatively small on a percentage basis, such an advance could produce a worthwhile rise in individual stocks.

While it must be considered a possibility, such an advance could hardly alter, in our view, the evidence of long-term deterioration that has been manifesting itself throughout the past summer. The uncertainties which confront the current stock market will not be removed by another relatively modest leg up on the advance. What a rally would do, of course, is to buy time, giving the investor a more favorable climate to take the steps necessary to insure protection of his capital.

Dow-Jones Industrials (12:00 p.m.) 958.31
S&P (12:00 p.m.) 110.70

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