TABELL'S MARKET LETTER

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Radio soap operas used to conclude each episode with a poignant question relating to the next day's installment. The stock market posed just such a question last week. It was, "Can American Telephone survive Levitz Furniture?".

Consider some of the paradoxes of the week just passed. The major averages closed the week moderately lower with trading volume continuing around its recent desultory levels. Meanwhile, Levitz, which had managed to decline almost 14 points in one day on mildly disappointing news Friday, continued to constitute a major portion of New York Stock Exchange volume, all the while heading in a general southeasterly direction. On Tuesday, American Air Filter, which had announced some difficulties in its Canadian subsidiary, lost 11 1/2 points, or better than 25 percent of its value, in a single day's trading. Early in the week Curtiss Wright had managed to loose 11 points in three days, for no reason that was immediately apparent.

While all this was going on American Telephone reached a new high for the year, in the process posting an important technical upside breakout, the first real sign of improving technical action in the stock in a number of years. Standard Oil of New Jersey also reached the new high list and also posted a technical breakout which suggests higher levels. The message seemed to be that the widows and orphans shall inherit the earth.

In a sense, last week's action should not be surprising since it was a continuation of the sort of thing that had been going on for some time. The relatively good action of the market averages has been masking consistent erosion of equity prices which has been going on since early summer and which has tended to become obvious only in dramatic cases such as those cited above. For example, as of Wednesday's close, the Dow Jones Industrial Average was off by a bit more than three percent from its high for the year. Of 1428 common issues which traded on the New York Stock Exchange that day, the average issue closed down some 21 percent from its year's high, and half of all issues were off from their highs by amounts ranging from 18 percent to 80 percent. Only 93 stocks were off from their year's high by less than the Dow, whereas 55 issues were selling 50 percent or more below their 1972 peaks. Clearly the averages have, of late, been outperforming the market.

Now on a purely statistical basis, there is no particular reason why this should not be so. Averages are, after all, composed of stocks, and if the stocks contained in those averages happen to be doing better than most, the averages will present a somewhat distorted picture of what the average stock is doing. Such is the case at the moment. The Dow encompasses both American Telephone and Standard Oil of New Jersey, cited above, plus two other international oils and a few other blue chips which have been recent upside leaders. The Standard & Poor's 500 is largely influenced by the Dow-type blue chips plus some of the larger growth favorites which, by and large, have held steady over the past few months. But one salty sage described a bear market by noting "When they back the paddy wagon up to the door, they take out the good girls along with the bad". Clearly for a substantial number of issues bear market conditions already exist. Thus the question of whether Telephone can survive Levitz. Can we continue with a market where the averages hold steady and the speculative favorites are, one by one, shot from the sky--a phenomenon that might be described as rotational collapse?

It is, of course, a question which, from an investment policy point of view, may not have to be answered. We have reached the point where high-grade, dividend-paying companies, selling at historically low levels on an earnings basis, comprise a liberal portion of those stocks showing the most dynamic technical action. Clearly, if a serious decline is in the offing, the investor will feel more comfortible throughout that decline with stocks of the Telephone-Jersey genre. Technical work strongly suggests that the investor in these stocks will also possess above-average capital gains opportunities, should the market turn up

Yet it must also be noted that, historically, relatively strong performance by high-grade issues following an extended advance has tended to denote the terminal phase of that advance. This may be surprising to some whose memory of bear markets extends only to the most recent one, 1968-1970. In that decline, the blue-chip-dominated averages topped out early, while a minority of investment and speculative favorites continued to move to new highs after the Dow had been headed downward for almost a year. If one goes back to previous downswings, however, the reverse has tended to be true. Most of the speculative favorites of the 1958-1961 advance made their highs in late 1960 or early 1961, whereas the averages reached their peak in November-December 1961. It is also worth noting that in the subsequent bull market, beginning in 1962, high-grade issues were leaders on the upside. General Motors, for example, reached its peak in December, 1961 along with the averages, and, in the subsequent downswing, declined only 2/3 as much as the average. From its 1962 low it had, a year later, moved up some 80 percent and stood a healthy 30 percent above its 1961 high. All of this makes the case in favor of quality at the present juncture rather compelling. Note: Comments on individual issues are based on technical factors only. Further information is available upon request.

Dow-Jones Industrials (12:00 p.m.) 935.20
S&P (12.00 p.m.) 108.40 AWT·rk

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