TABELL'S MARKET LETTER

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A number of years ago, this letter, already finding itself, perforce, in the forecasting business developed a tradition of forecasting the results of presidential elections. That particular task is about the easiest one facing us this week. We forecast the reelection of President Nixon.

Recent reactions to Mr. Nixon's overwhelming lead in public opinion polls are interesting. We have recently seen a spate of articles proving that polls can be wrong, with abundant reference to 1948 and to the Literary Digest Poll of 1936. We must confess, in this regard, we feel a certain sympathy with the pollsters, partially, we suppose, as a result of being allied with them in the forecasting trade. 1948 polls, for example, did support the probability of a Dewey victory over Mr. Truman. There was a necessary margin for error in this forecast, and that margin proved decisive enough to tip the scales in President Truman's favor. In the present case, the margin for error is a good deal wider. Unless the American people have, overnight, developed the habit of lying to polltakers, the "wrongness" of the present-day forecast could be a great deal larger than it was in 1948, and Mr. Nixon would still emerge victorious, the only difference being that the election would be a great deal closer than the landslide now apparently in the offing.

As we suggested above, forecasting the election, at the moment, is a great deal easier than forecasting the stock market. We noted last week the fatuity of trying to link stock market fluctuations to news events, and this was once again demonstrated in the past week's trading. From Tuesday to Friday the market staged what was, by all odds, its best two-day rally of the year, advancing a total of 25 points on the Dow-Jones Industrial Average which reached a high on Friday just above its peak levels of last August. We were duly assured that this strength was due to a combination of peace expectations and better corporate earnings, despite the fact that there was absolutely no progress in the Vietnam peace talks and the corporate results released were really not surprising. Once more, with a shortage of hard events to stimulate price change, Wall Street took to inventing imaginary ones.

The problem is to assess what it all means. From a technical point of view, we are still, unfortunately, in not a very different place from the one we have been in, lo these many months. For the fourth time the Dow finds itself posting an intra-day high around the 980 level. The question is whether this barrier, which turned back the market on the three previous occasions, can this time be decisively breached.

There are certain arguments in favor of the thesis that, this time, the bastion may fall. Breadth has been a shade better on the recent rally than on previous advancing attempts. Broader price indicies, furthermore, have broken out on the upside of small base formations suggesting higher levels, although, in most cases, not a great deal higher. And there are certainly enough positive patterns in the Dow-Jones Industrial Average itself to suggest an intermediate-term advance in that index, carrying it above 1000 with all the inevitable accompanying hoo-hah.

Yet the question remains how excited we should get about this prospect. The art of investing is a process of weighing risk against reward, and it is the potential for large returns that should make one enthusiastic about assuming the necessary risks inherent in equity investment. Throughout the summer of 1970, as the market pattern unfolded, there was the strong probability that a major bear market bottom had been made. Based on this thesis, the prospects for substantial upside reward were exciting in the extreme. Even last November, as the fact of a reversal became clear, the Dow, from the low 800's, still had interesting enough upside possibilities to warrant a reasonably aggresive attitude. In the present case, where upside objectives on most averages seem to be about 10% above current levels, even when viewed in the most optimistic light, there is not all that much to get worked up about in so far as upside prospects are concerned.

None of this should be taken as an attempt to "fight the tape" too hard. If the market does ultimately demonstrate a high degree of likelihood of advance from these levels, we will take due note of the fact and recommend action accordingly. The reader will forgive us, however, if we are unable to get as excited about upside prospects 2 1/2 years into a major bull market as we did in that bull market's infancy.

Dow-Jones Industrials (12:00 p.m.) 981.04
S & P (12:00 p.m.) 113.79
AWT:rk

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