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

December 15, 1972

Our readers are no doubt aware that it is our practice to devote the last few issues of this letter each year to a forecast for the year ahead. This exercise is generally divided into two parts, the first being a review of the market events of the prior year and the second an attempt to see how these events shed light on the future. This letter, then, constitutes the first part--a look back prior to a look ahead.

In the present instance, we think it essential to an understanding of the current market to look back, not just a year, but some two years and seven months, to May 26, 1970 when, as we all know, the Dow-Jones Industrial Average bottomed out at 631.16 after the worst bear market of the post-war era. As the cries of doom and gloom gradually subsided, the Dow, over the next 11 months, advanced over 300 points to reach a high of 950.82 in April 1971. Summer, 1971 was a period of general market weakness, although many issues were resistant to the decline, and, by Fall, almost half the initial phase of the rise had been retraced, as the index reached a low of 797.97 in November.

From that point, another upward leg began, with a closing high for the Dow of 968.92 being recorded in April. Summer, 1972 was, like Summer 1971, a period of weakness but with one essential difference. Whereas in 1971 the market averages had performed worse than the average stock, for 1972 precisely the opposite was the case. The period April-November 1972 saw a sideways trading range in the 900-980 area, as far as the averages were concerned, but many stocks underwent sharp declines. This phase, of course, terminated with the recent rally, as the Dow broke out of the aforementioned range on the upside, reaching a high (to date) of 1036.32.

Now the purpose of this lengthy exercise is to remind us to place the present market situation in context. We are in a bull market. That much is obvious. We are, more precisely, in the third upward leg of that bull market, there having taking place two corrections (April-November 1971 and April-November 1972) which can be classified as intermediate-term in scope. That bull market has gone on now for more than two and a half years, 654 trading days, and encompasses a 65% advance for the Dow-Jones Industrial Average.

A month ago in this space, we cited the above statistics and compared them with other bull markets of the post-war era. We do not propose to reiterate all these comparisons here, but it will be recalled that the conclusions were, 1) that a good portion of what would ultimately be the total bull-market advance had probably already been seen and 2) that a topping out of the advance sometime in 1973 would be entirely in line with historical precedent. This remains true despite the almost total lack of evidence, on a short-term basis, of such a top forming in the immediate future.

While the present bull market is in no way different in character from past such advances, we must also remind ourselves that it is taking place in an entirely different context. The fact that 1972 has been a year in which the low was recorded in January and the high in December helps to obscure the fact that the average price for the year is about 960, not too different from the average price of 1965, seven years ago. The present bull market in other words has, to date, been totally consistent with the relatively flat secular trend which, as we have been pointing out in this space ad nauseam, has characterized the market since the mid-1960's, in vivid contrast to the secular uptrend which had been rising at a rate of 9% for some 20 years through 1966. We thus find ourselves, 1) somewhere in the mature stages of a bull market and 2) near the upper part of the trading channel which has characterized the last seven years of stock market activity.

Another point should be noted. As we suggested in our 1972 forecast, the fact of an election year augured well for the year's market prospects. The historical record of post-election years is unfortunately considerably less auspicious. Every major bear market since 1929 has begun in the year following an election or in the first half of the succeeding year.

We think that all of the above factors will be relevant to a 1973 forecast.

Dow-Jones Industrials (12:00 p.m.) 1024.53
S&P (12:00 p.m.) 118.11

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

A VERY MERRY CHRISTMAS TO ALL