TABELL'S MARKET LETTER

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MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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Despite sporadic intra-day attempts to rally, stock prices still found themselves little in the way of significant support in last week's trading. A five-point advance in the Dow on Wednesday morning was aborted and turned into an 11-point decline, which continued with further sinking spells in Thursday morning's trading. Although a mild rally attempt Thursday afternoon failed to demonstrate a great deal of follow-through, some strength was evident in early Friday trading.

The bear cub spawned last January 11th is now beginning to grow claws. In short, the decline, which has now extended to almost 9% in 19 trading days for the DJIA, is beginning to hurt. As drops of this nature become increasingly painful, various reactions are possible. Some, unfortunately, border on the irrational. Two such responses can be characterized as the horrorific vision and the indignant bleat.

The horrorific-vision sort of response could well, in the present instance, center around the well-advertised doings in European money centers. A casual reading of the headlines of the past week would seem to suggest that the United States will soon be owned, lock, stock, and barrel, by the Deutsche Bundesbank. Indeed, one possible reason for the market's response to the heavy selling of dollars abroad is the fact that very few people seem to have any precise idea of just exactly what it means or does not mean as far as the U. S. stock market is concerned. There is an apocryphal story to the effect that only two people in the world really understand the international money market, a clerk in the Bank of England and a partner in the House of Rothschild. They, it is said, disagree. Our own reaction to these developments is perhaps an overly simplistic one. We would suggest that the ultimate effect will be 1) an upward-revaluation of major European currencies, which will, in turn, produce 2) another rise in the price of Volkswagens. If this is catastrophic for the market, so be it.

The second category of response, the indignant bleat, tends to come from those who consider market declines a personal affront. XYZ Corporation, they tell us, is going to earn $10 per share. How, it is asked, can the ignorant stock market value it at $50? Translating this sort of plea into current terms, might produce the statement that the Dow-Jones Industrial Average will probably, in 1973, earn $73 a share. How can it, as was the case at this week's intraday low, sell for only thirteen times these all-time record earnings?

The obvious answer to this one is, simply, that it, in fact, did. As we have pointed out innumerable times in the past, earnings and dividends are not the only inputs to market prices. Investor confidence is equally important and can be expressed numerically by the price paid for a dollar of earnings. That price, in the case of the Dow, was 13 last week, has been both higher and lower in the past, and will, in all probability, be both higher and lower again.

If we are to draw any optimism for the future from last week's events, we, for ourselves, would prefer to do it with hard statistical fact. Such fact is, in actuality, available. At last week's low, the market had reached, in terms of a number of indicators, the sort of measurably oversold condition which has in the past characterized important bottoms. In terms of one such indicator, the excess of declining issues over advancing issues on a 10-day basis reached 25% of the total number of issues traded. This is, admittedly, a somewhat esoteric number. However, on the record, it has occurred comparatively few times in the recent past and, in the majority of those cases at least, some rally from then-existing levels has ensued. We are, thus, as we indicated last week, impelled to a degree of moderate optimism on a short-term basis.

Further, as we suggested last week, it is generally not sharp declines that worry the technician, but weak rallies. A narrow and modest advance from whatever bottom is made over the near term would cause us to increase our skepticism regarding the future course of equity prices. Before we can make any such diagnosis, however, we must wait for such an advance to occur.

Dow-Jones Industrials (12:00 p.m.) 972.61
S&P (12:00 p.m.) 113.98

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