TABELL'S MARKET LETTER

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It has often been claimed in recent months that the popular market averages have been giving a distorted picture of the stock market's true performance. We have recently completed a study which underscores just how distorted, in fact, that picture has been.

According to the averages, the stock market scored a new all-time high just over a month ago. Measured another way, however, the average stock made its high---not this January, but over four years ago in December 1968, and it is currently trading some 40% below that high. Likewise, according to this measure, the high for the recent bull market was scored, not six weeks ago, but in April 1971, and we are now some 18% below that peak.

We computed the index on which we base the above statements as follows. Since May 1, 1964 QUOTRON has made available a stock price change index which, essentially, shows the average day-to-day percentage price change for all issues traded on the New York Stock Exchange. It is computed, in essence, by adding the daily percentage change of all stocks and dividing by the number of issues traded. We have computed a market index by cumulating these percentage changes daily, starting with a base of 810.77 which is the level at which the Dow-Jones Industrials stood on April 30, 1964. The index in our opinion, gives a reasonably accurate statistical picture of the performance of the average New York Stock Exchange issue, as contrasted to indices such as the Dow and the S&P 500 which tabulate the performance of a limited number of issues. The table below gives the value of our cumulative index at major market turning points since 1964 and the level of the Dow for the same date. Percentage changes between each point are also given.

Date	Cumulative Index	% Change	Dow-Jones Industrials	% Change
April 30, 1964	810.77		810.77	
Feb. 1966 High	1094.85	+35.0	995.15	+22.7
Oct. 1966 Low	803.25	-26.6	744.32	-25.2
Dec. 1968 High	1455.00	+81.1	985.21	+32.4
May 1970 Low	704.32	-51.6	631.16	-35.9
April 1971 High	1059.51	+50.4	950.82	+50.6
Nov. 1971 Low	826.54	-22.0	797.97	-16.1
April 1972 High	1044.01	+26.3	968.92	+21.4
Oct. 1972 Low	888.56	-14.0	921.66	- 4.9
Jan. 1973 High	979.26	+10.2	1051.70	+14.1
Feb. 21, 1973	870.64	-11.1	974.34	- 7.4

A number of interesting points can be raised. First of all, the Dow understated the performance of the market between April, 1964 and February, 1966 by a relatively small amount, and produced a fairly accurate representation of the 1966 bear market. It is following this point that discrepancies begin to appear.

First of all, as we all know intuitively, the period from October, 1966 to December, 1968 was a period of speculative turmoil, probably unmatched in recent decades. Our cumulative index suggests this, showing a whopping 81% advance while the Dow dramatically understates it, posting only a 33% advance. Likewise, the action of the Dow failed to show the true viciousness of the 1968 - 1970 bear market. Its 36% decline was substantially exceeded by the drop of over 51% in our cumulative index.

From May 1970 to April 1971, the 50% rise shown by the Dow was a reasonably accurate representation of the performance of the market has a whole. However, since that time, the Dow has been performing a great deal better than the average stock, as measured by the cumulative index. That index posted a 22% decline in April-November 1971, versus only a 16% drop in the Dow, and its rise from November, 1971 to April of 1972 failed to reach a new high in contrast to new peaks posted by the Industrials. During the summer of 1972, the Dow dropped only 4.9% while the cumulative index declined 15%, and the advance of last fall in the cumulative index was only 10% versus 14% on the Dow, marking a second failure by the cumulative index to post a new high. Since the January high, the cumulative index has dropped another 11% versus only a 7% decline in the Dow, and it stands, interestingly enough, at a level approximately equal to that of the fall of 1964.

The action of this index simply underscores the fact that the period since May, 1970 has been a difficult one for equity investment despite the fact that the averages have turned in a rather conventional bull-market performance. It also emphasizes, in our opinion, however, the fact that the average stock is at the moment fairly reasonably priced on a historical basis. The index shows that we have come a long way in recent years toward correcting the excesses of the late 1960's. That correction may not yet be complete, but at least it is, according to this measure, well on the way.

Dow-Jones Industrials (12:00 p.m.)
S&P (12:00 p.m.) 113.95
AWT:rk

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