TABELL'S MARKET LETTER

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As mentioned in last week's market letter the short-term oversold condition of the stock market suggested a rally "logically from the 920 - 905 area." The market accommodated us the first four trading sessions of this week, highlighted yesterday by the anticipation of President Nixon's address on economic and foreign affairs. As in previous short-term oversold rallies this year, a possible test of the previous low of 922.71 on March 23 should be anticipated. Should this low be violated, of greater significance from a longer-term point of view would be the penetration of the October 16, 1972 low of 921.66.

We have been commenting in our last three letters on some of the problems posed by growth stock investment from the point of view of the individual investment manager. Despite these problems, it is evident that the theory has gained a wide degree of popularity, especially among those deploying substantial sums of money. We should like in this issue to consider some of the implications of this popularity for the character of future securities markets.

Last April, a major New York City bank announced in a New York Times interview that, of the $6.1 billion it had under management, one-third was invested in the common stock of just ten major companies. Of these ten, at least seven, IBM, Eastman Kodak, Xerox, Avon Products, Johnson & Johnson, Sears Roebuck, and Schering-Plough fell into the category of familiar senior growth favorites.

What was absolutely intriguing was the size of the positions. The best way to gain an idea of their magnitude is to compare them with average monthly trading volume for the issues in question. The IBM position amounted to almost three months trading volume, the Kodak position to two and one-half months trading volume, and the Avon Products holding to almost four months trading volume. These, it must be remembered, are the positions held by only one bank. Probably a dozen other institutions are in a position to have holdings of roughly comparable size. The obvious conclusion are these positions are effectively unsaleable.

The incisive and witty Alan Abelson fantasied in Barron's a few weeks ago what might happen were a number of large institutions simultaneously to attempt to sell even a small portion of their holdings in growth favorites. "The effect," he said, "could be similar to a mess of wounded elephants trying to stampede out the same porthole."

Actually, it would not be necessary for the elephants themselves to do the stampeding. One of the unique market statistics of 1972 was the substantial rise in margin account debit balances, at a rate far greater than any similar rise in the past. This in itself was not all that surprising. What was interesting was that it took place without any increase whatsoever in other measures of speculative activity such as American Stock Exchange volume and indices of low priced stocks. It seems at least a tenable conclusion that the new breed of margin trader went where the action was and was in there competing with the institution for a select list of growth favorites.

Now the margin trader, historically, is a nimble creature and he is going to be quick to leave the scene when institutional sponsorship of one of his holdings begins to lag. The result, market theory tells us, should be increased volatility in issues of this sort, and is indeed is precisely what we saw throughout 1972. The phenomenon of rotational collapse as various growth issues fall from favor has been a concomitant of recent markets. We would expect the phenomenon to increase rather than decrease in frequency.

Meanwhile, virtually unnoticed amidst all the hubbub, there exists a whole host of companies, the majority actually, whose earnings, for one reason or another, have not in recent years displayed the consistent earnings growth so desired by the growth-stock theorists. Lack of demand has brought the price of many of these companies to twenty-year lows in relations to their earning power. More importantly, it can be argued, it may have effectively shut many companies off from the capital market. With public demand for equities sharply reduced, it is difficult to market new issues if they are not acceptable to the large buyers with a predilection for such.

The extent to which concentration in growth stocks has depressed the prices of issues not falling into that category can be measured by the wave of announcements by companies of intent to purchase their own stock. In all too many cases, prices have apparently been depressed to the point where these companies find stock retirement a preferable alternative to expansion.

The phenomena cited above are only a few of the apparent results of institutional concentration on growth issues, and we do not think all the implications of this concentration are yet obvious. It seems, however, that as long as the trend continues, market disruptions of the sort mentioned above are likely to be commonplace.

Dow-Jones Industrials (12:00 p.m.) 955.30
S&P (12:00 p.m.) 112.16

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