TABELL'S MARKET LETTER

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A couple of years ago we were involved in a minor auto accident with a truck on a mountain road in Montenegro. We found ourselves, knowing not a word of Serbo-Croatian, faced with the problem of discussing what should be done, with a truck driver, who, of course, knew not a word of English. The frustration produced by such moments is, as any traveler is well aware, exquisite.

We find ourselves similarly frustrated at the present moment in trying to talk about the stock market---and for precisely the same reason, the lack of a common language which we can share with our readers to describe where the market has been and where it appears likely to go. For instance, we would have liked to have begun this week's letter by saying that the bear market continued---indeed, even accelerated---last week. Yet in terms of a shared frame of reference, the Dow Jones Industrial Average for example, the statement does not hold together. For the Dow, as of Friday at least, had not made a new low for a month and, in a rally which began on Thursday afternoon, completed what was apparently the second successful test of that low. Moreover, at its low of a month ago, the Dow was off by only 12.26% from its January high so that, by this standard, what has passed since January may qualify as a reasonably vicious intermediate-term decline but not, in historical terms, a bear market. Approximately the same pattern holds good for the S & P 500.

Yet, as many of us are painfully aware, the situation is a great deal worse. We must refer again to our old friend, the cumulative index. At week's end, this index had reached an intra-day low of 764.03, compared with a January peak of 976.52 for a decline in excess of 21%. Its pattern, moreover, was diametrically opposite to that of the popular averages. While these indices, at week's end, simply tested their lows of mid-March and early April, the cumulative index, which posted successive new lows on both of these occasions, moved substantially below those bottoms this week, thus continuing what has, since January, been a steep and unabated downtrend. What the index showed was the familiar picture of a major market decline in its more advanced and nastier stages.

This contrast between the average stock and the popular averages is important, not only in describing the market action of the past four months, but in formulating a forecast. If all we are looking for at this stage is an intermediate-term bottom, we will require a great deal less evidence than would be the case if we were trying to pinpoint the bottom of a major bear cycle. The triple bottom in the averages, if it holds, would constitute impressive evidence of the end of an intermediate downswing. Few indicators, at the moment, however, appear to have reached the levels we have become accustomed to associate with the bottom of a major bear cycle. Short interest, which, incidentally, declined last month, is still at a relatively low level. Mutual fund cash position, while it rose slightly in March, is substantially below the levels reached at the last two major-cycle lows. Margin debit balances have been declining sharply for the past three months, a phenomenon which one would expect in a major downswing, but this sort of decline has, in the past, persisted a good deal longer than the current one and has achieved a much greater magnitude than we have seen to date. The classic signs of speculative activity, American Stock Exchange volume, for example, are admittedly at levels normally associated with bear market lows, but then they have been at these levels for the past three years. As we have suggested in the past, one of the salient differences between the 1970-73 bull market and previous ones was the total absence of the individual speculator.

The following three facts appear relevant to a forecast at the moment: 1) The average stock has already undergone a decline of major-bear-market proportions. 2) The high-grade growth and blue-chip favorites which dominate the averages have not yet posted such a decline. 3) The signs normally accompanying a major bottom are not yet present. The three facts lead us insistently to a question. Will the institutional favorites comprising the averages ultimately follow their less aristocratic brethren over the precipice?

There was some suggestion in last week's action that such may become the case as, for the first time, these issues joined in the decline. This possibility, of course, constitutes one of the market's major areas of vulnerability. It will, in most cases, require further evidence to complete distributional patterns in most of the classic growth issues. What remains unanswered, of course, is the extent to which a severe correction in this area of the market might spill over into other, already-deeply-depressed segments of the list.

Dow-Jones Industrials (12:00 p.m.) 925.57
S&P Comp. (12:00 p.m.) 107.65
AWT:JC

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