# TABELL'S MARKET LETTER

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The five-month old downswing plunged to yet another new low early this week with Monday's trading producing an 18-point decline in the Dow and a continuation on Tuesday morning which brought the index below the 900 level for the first time since the market drop began. Tuesday afternoon and Wednesday produced a fairly typical rebound, an intra-day peak of 927.83 being scored at mid-week. As has been the case in the recent past, however, this advance failed to follow through, and by the end of the week prices were again trending lower.

Following the early rally, the words "selling climax" were being heard in a few quarters. By no stretch of the imagination could the classic technical definition of a selling climax be applied to Tuesday's and Wednesday's markets. Such action requires, among other things, a substantial increase in volume on both the downside and the upside, substantial being defined as a two-to-three-fold rise. Tuesday's advance in volume to 18 million shares from 13 million shares the previous day hardly qualifies.

As any market decline begins to gather momentum, the basic question posed to the forecaster centers around how far it may be expected to go. Before answering this question in the present instance, it is perhaps best to back off and reexamine once more the longer-term stock market picture.

Regular readers of this letter will be well aware that just about everything we have said about the stock market over the past 2 1/2 years has been within the context of a particular thesis---that the secular trend of the stock market can best be described by a broad, relatively flat trading range in terms of the major averages. We first expressed this view as early as January 1971 when we stated in this space, "the equity market from 1942 until 1966 was buoyed by a secular uptrend advancing at the rate of about 9% a year on the Dow. Sure, there were bull markets and bear markets within the framework of that uptrend, but the bull markets were long and dynamic and the bear markets, although painful, short and quickly recovered. There is real evidence at the moment however, that the secular uptrend is no longer with us. Indeed, computed from 1966, the slope of the DJIA has been virtually zero. The most statistically accurate description of the market on average for the past five years is that it is a wide, flat trading channel." Nothing has happened in 2 1/2 years to change this view.

If the market is, then, to hold within a trading range that range is, so far at least, defined by two points on the DJIA, the high of 1067.20 made early this year and the low of 631.16 scored on May 26, 1970. If we assume that the market is vulnerable to a return to the lower part of that range, the downside risk from these levels is substantial indeed.

Unfortunately, the existence of such a risk is suggested by a number of technical factors. The most pessimistic possible reading of the DJIA pattern indeed suggests a return to the 1970 low, and, as we suggested early this month, capitalizing the earnings of the Dow components at their lowest historical multiples would also suggest such an eventuality. There are, further, sufficient poor technical patterns extant to suggest that the risk of lower levels is a real one.

Yet we are reluctant at this point to offer numbers as low as this as a forecast, and we feel compelled to suggest that, even were a decline of this magnitude to take place, that the stock market would not, throughout such a decline, be acting as badly as the averages would suggest. Our cumulative index, which we feel is much more descriptive of the average stock than is the Dow or the S&P, was, at the end of this week, at a low of 717.55 vs. a 1970 low of 677.65. Quite clearly, for a great many stocks, the process of correction back to--or in some cases substantially below--the lows of 1970 has already taken place. It is in the higher-multiple, institutional-quality favorites where the largest gap between present prices and the lows of 1970 exists. It is in these issues we feel, as our readers are well aware, that the risk is greatest.

It must further be pointed out that, when talking about a trading range with a lower limit of 630, we are making allowances for conventional bull and bear markets within the context of that trading range. Certainly the market in the present instance is deeply oversold, and we would be willing to believe any evidence that pointed to a intermediate-term rally were such evidence to manifest itself---which, it should be pointed out, since January it has consistently refused to do. Meanwhile, however, it seems to us the risk implicit in the apparent longer range pattern must be kept in mind.

Dow-Jones Industrials (12:00 p.m.) 900.21
S&P Comp (12:00 p.m.) 104.37
AWT:rk

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