

TABELL'S MARKET LETTER

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In some 15 years of writing about the stock market we have always found it to be a fascinating topic and have seldom found it overly difficult to find new facets which would provide the subject for a weekly comment. The greatest difficulty, however, occurs in markets like the present one, which has been characterized, since January, by a certain eerie sameness. It has been, in the simplest of terms, a market which has been going down with little in the way of any sign of reversal more convincing than the tepid sort of strength which occurred last week.

It is perhaps hopeful in focusing on the current stock market dilemma to remind ourselves of a few rather elementary facts about the nature of stock prices. One of the most elementary and yet one of the most helpful of such facts is the recollection that a stock price, like a plane in the air or a ship at sea is a moving object and, as such, possesses three qualities that are necessary to an understanding of its essence, level, direction, and momentum.

This analogy can be clarified by reference to other sorts of moving objects, for example, a plane in flight. If we were to state that a plane, at a given time, was 30,000 feet over Chicago and to pose the question of where it was likely to be two hours later, we would obviously be in possession of insufficient information to formulate an answer. We would be aware of the plane's current position (analogous to the current level of the stock market), but we would obviously also like to know in which direction the plane is headed and how fast it is traveling. Possession of all three items of information, level, direction, and momentum, would give us an idea of where the plane was likely to be at anytime in the future.

Of course we would still be unable to forecast with 100% accuracy. There would be no guarantee, in the case of the airplane, that the pilot would not decide to change his course one, or indeed a number of times. However, even allowing that course changes are always possible, we would still want to calculate level, direction, and momentum if for no other reason than to define what would constitute a possible course change.

So it is with the stock market. The current level of the stock market is well known. Its direction is also painfully obvious to most observers, that direction, since January, having been down. Momentum is only a slightly more complex calculation. Every observation (i.e. closing price) of the Dow-Jones Industrial Average since January 11 of this year has been contained within a trend channel approximately 67 points wide which has been declining at the rate of 1.09 points per day. It is this latter figure which gives us the third ingredient in our equation, and, with all three factors in our possession, we now have a considerably better, albeit still rough idea of the nature of stock prices over the past six months.

There is an unfortunate tendency on the part of many investors to think of stock prices only in terms of level rather than considering also the other two factors and to suggest that a stock is "cheap" at a given price without considering that its direction has been down and that no evidence of a course change has been given. Now there is some validity to this. To overwork our airplane analogy a bit more, no plane can continue on the same course indefinitely. It would eventually, if nothing else, run out of fuel. Likewise, with any stock market downtrend, the only true certainty is that it will, someday and at some level, reverse itself. The task of analysis is to decide what would constitute true evidence of a change of course and not to assert that because a given level has been reached such a course change is any more probable. Thus our difficulties in finding new things to say about the stock market in the past few months. The market has stubbornly remained on precisely the same course with approximately the same momentum. The evidence of any course change has been tenuous if not, indeed, nonexistent.

We have referred in this space in the past to what we would like to see as such evidence. Certainly crucial thereto would be an upside penetration of the trend channel referred to above, the upper limit of that channel now being located at approximately the 917 level in terms of the Dow. We would like, moreover, to see such a breakout accompanied by the sort of volume that has normally occurred at climactic market bottoms, and we would, in addition, like to see some evidence of breadth and follow-through which could be adduced from such items as a sharp reduction in the number of new lows etc. We would also like to see a host of other factors which are characteristic of bottoms, high institutional cash position, low short selling by specialists, and heavy short selling by odd lotters just to name a few of many. We have no idea quite frankly when such evidence will assert itself. Until such time as it does, it will be pointless to assert that anything in the stock market picture has changed.

Dow-Jones Industrials (12:00 p.m.) 892.76

S & P Comp. (12:00 p.m.) 104.45

AWT:rk

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