TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

August 2, 1973

One of the great psychological differences between bull and bear markets is investor attitude towards short-term declines. In the advanced stages of market upswings, such declines are viewed with equanimity, in total confidence that they will shortly reverse themselves and that the market will move ahead to new highs. In the advanced stages of downswings and around market bottoms, however, a good one-day down market is guaranteed to rekindle pessimism. Such was the case last week when the Dow, having shown improved technical action for some six weeks, sharply reversed itself and plunged some 25 points over the four-day period ended Thursday with a fourteen-point Wednesday decline contributing the bulk of the damage. Even more dismal was the action of the Dow-Jones Utility Average, often regarding as a leading indicator, which joined in the decline by plunging to a new 1973 low.

It is a time when it is a good deal easier to formulate investment policy than to make a market forecast. We have been suggesting in this space for some time that the market's deteriorating technical action made advisable the maintenance of some buying reserve. The question, throughout all of 1973 thus far, has been whether or not such reserves should be committed to equities. Until June, there had been no technical evidence whatsoever that such might be the case. At that point distinct technical improvement did manifest itself. The Dow-Jones Industrials bottomed three times in late June and early July at around the 862 level intra-day, and the subsequent rebound was technically impressive, surpassing, as it did, previous rally peaks of May and June and penetrating the downtrend channel in effect since the early part of the year. More impressive, as we suggested last week, was the distinct shift in leadership away from the relatively exploited growth favorites and toward that group of neglected issues which, with good reason in some case and with less apparent reason in others, had plummeted during the market decline in the first six months of 1973.

Even in the light of this evidence, however, we have remained reticent about recommending the commitment of reserves. One reason has been that a whole host of indicators which have been useful in pointing out major bottoms in the past reached levels in June which were almost---but not quite---suggestive of those characteristically present at an important low. For example, the short interest ratio reached 1.65 whereas levels of 1.9 to 2.0 had been characteristic of major lows in the past. Mutual fund cash position attained the 8.5% level, a relatively high figure, but below the peaks of 9.7% attained at the 1966 low and 11.8% reached in the summer of 1970. Specialist short sales for the week ended July 6 declined to just under 40% of total short sales but, again, lower figures had been seen at both the 1966 and 1970 bottoms. And odd-lot short sales likewise failed, by a number of measurements to reach levels to which they had risen at previous major lows. Thus, unlike, for example, May 1970, it was impossible to say in mid-June that the level of pessimism usually associated with major bear-market lows had been reached.

It thus became incumbent upon us to suggest that more evidence was probably needed, and the process of providing such evidence was aborted by this week's decline. This is not to say that the evidence will not ultimately be provided. Were the present downswing to test the support which now exists at the 890-860 level and should basing action or a new rally attempt assert itself from that level, we would be duly impressed. On the other hand a decisive move through that support---an event historically not without precedent---would underscore the fact that the policy of reticence was an advisable one.

Dow-Jones Industrial (12:00 p.m.) 906.16
S & P Comp. (12:00 p.m.) 106.32
AWT:rk

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL