TABELL'S MARKET LETTER

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DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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Retracement of the June-July advance continued last week with the Dow reaching an intra-day low of 893.96 on Thursday. As we suggested a week ago, a test of the 890-860 level appears probable, and whether such a test will ultimately prove successful is at best problematical. While the general market picture remains unclear however, certain distinct patterns begin to emerge from a close scrutiny of individual stock patterns, and some of them are of considerably more than passing interest. Consider for a moment the following statistics, purely technical, on a group of eight well-known companies.

	52 Week High	200-Day Moving Average	High This Week	% of High	% of 200-Day M/A	Estimated 1973 Earnings	P/E
Alum. Co. of Amer.	69 3/4	55.37	69 3/4	100.0	126	$5.00	13.9
Alan Aluminum	34	26.00	34	100.0	131	$2.30	14.8
Allied Chem.	36 7/8	32.09	36 3/4	99.6	115	$3.10	11.9
Montsanto Co.	59 7/8	52.27	58 1/4	97.3	111	$5.75	10.1
Internat'l Paper	43 3/8	37.78	40 1/2	93.4	107	$3.00	13.5
Westvaco Corp.	28	24.58	27 7/8	99.5	113	$2.75	10.1
Kennecott Copper	30 7/8	25.47	30 7/8	100.0	121	$3.70	8.3
Phelps Dodge	47 1/2	41.94	46	96.8	110	$5.00	9.2

As can be seen from the above, the eight issues show a common pattern in that they are all at or near 52-week highs, and that they are all trading, by a goodly percentage, above their 200-day moving average. Now these are simple measurements designed to measure the vigor of a given move and how close a stock is to the peak of that move. They do suggest, however, that the eight companies are in reasonably robust technical health. Furthermore, detailed inspection of the individual patterns shows that all eight have broken out or close to breaking out of large and significant base formations.

Turning to fundamentals, another common thread begins to emerge. The list includes two companies each from the aluminum, chemical, copper and paper industries. Producers of heavy industrial commodities, the sort of issues totally out of recent vogue in investment circles, the industries involved have been subject to varying degrees of profit-margin pressure over the years and their earnings growth, at least until recently, has generally been subpar. What then, is the improved technical performance trying to tell us?

	GNP Deflator	Annual % Change	Consumer Price Index	Annual % Change	Wholesale Price Index	Annual % Change
Dec. 1959	102.1	-	88.0	-	94.3	-
Dec. 1964	109.6	3.6%	93.6	1.3%	94.9	0.1%
Sept. 1972	146.4	3.6%	127.3	4.0%	120.2	3.0%
June 1973	152.3	5.3%	132.4	5.3%	136.7	18.2%

Herewith another set of statistics. The above table shows the history of three measures of inflationary pressures since 1959, the GNP deflator, the consumer price index, and the wholesale price index. For selected periods, the annual rate of percentage change is shown. As the table shows, in the early 1960's with a low rate of general inflation, the wholesale price index increased little at all. And although the rate of increase accelerated between 1964 and 1972, the wholesale index was increasing over the period nowhere nearly as fast as the consumer price index or as the general price level, as measured by the deflator. For the past nine months however, the wholesale price index has increased at an astounding annual rate of 18.2%, considerably faster than either of the other two indicators. Quite clearly, the inflationary pressures in recent months have come from an area entirely different from the service industry heavily weighted in the C.P.I.

It seems logical to speculate that this may well be the kind of environment in which producers of industrial commodities could fare well, especially since many of them are now operating at close to capacity, and there are some real questions about the profitability of adding substantial capacity at current price levels. This of course, can mean shortages (viz. beef and gasoline). It can also mean relief from the pressures on margins that have plagued these companies for many years.

Lastly, as the final columns of the first table above show, present prices hardly involve the payment of a premium for these prospects. Most issues, even based on their recent highs, are selling at modest multiples of expected 1973 earnings. If, as is possible, these earnings represent not expansion peaks but the start of new growth trends, the investment results could be attractive indeed.

NOTE: The above comments are based on technical factors. Further information on all companies is available on request.

Dow-Jones Industrials (12:00 p.m.) 894.42
S & P Comp. (12:00 p.m.) 104.99
AWT:rk

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