TABELL'S MARKET LETTER

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In a familiar blue-Monday trading session, the stock market plunged to new lows in the initial trading session of last week, moving significantly below the previous bottom which had been established in early December of 1973. At its lowest levels of last week, the market was lower than it had been at any time since a few days around the bottom posted in November of 1971. The previous point that stocks had traded at a lower level was on the initial rally of the 1970-73 bull market in the late Fall of 1970.

Now we are well aware that there are those, confirmed watchers of the Dow-Jones Industrial Average, who will immediately take issue with the above paragraph. For, in fact, in terms of the Dow, the market did not, last week, move below its December 5th low of 788.31. Monday's close was 803.90 and the latter part of the week saw some improvement, albeit in a rather desultory fashion. In addition, our Cumulative Index was, at the beginning of the week, well above the bottom it had posted last September. If, however, we are willing to accept the broad-based Standard & Poor's 425-stock Industrial Index, or the 500-stock Composite as true measures of the general market, our opening statement is, in fact, perfectly true. The December 5th lows for the two indices were 103.37 and 92.16, respectively. The comparable Monday closing figures were 100.83 and 90.66. These figures compare in turn with November, 1971 lows of 99.36 for the Industrials and 90.16 for the Composite.

The above, in our opinion, is something more than just an idle statistical exercise. We think, by contrast, that the above numbers rather nicely encapsulate what has really been taking place in the equity market over the past few weeks. We have pointed out many times in the past that the Standard & Poor's indices are weighted more heavily in favor of the billion-dollar growth stock favorites of 1972 than is the Dow, and this discrepancy is even truer of the comparison between the S&P indices and our Cumulative Index, which gives equal weight to every New York Stock Exchange-listed issue. The contrasting performance of the two indices, in other words, neatly underscores the fact that the leaders of the downside parade have been growth issues, while the rest of the market, if not exactly in robust health, has managed to stave off utter collapse.

This fact is further highlighted if we look at the list of new lows for Monday and Tuesday. The list is relatively small (a point we will return to later), but it reads like an honor roll of last year's growth favorites. Such names as Avon Products, Clorox, Coca Cola, Eastman Kodak, Eli Lily, Pepsico, Ponderosa, Procter & Gamble, Searle, and Tropicana, once the darlings of the one-decision school of investment, are conspicuous by having posted 14-month lows. In a number of cases, the dismantling of the first tier has assumed blockbuster proportions, as witness a Simplicity Pattern managing to lose half its market value in two trading days.

The old saw about the optimist seeing the glass half-full and the pessimist seeing it as half-empty is applicable in many ways to today's stock market. The pessimist can point quite rightly to the utter devastation taking place among growth issues, calculate the billions of investment values being lost due to the huge capitalizations of these issues, and conclude, with some justification, that the present market situation is, in fact, utterly chaotic. The optimist can, on the other hand, draw comfort from the observation that the growth stocks have managed to move off the bottom of most charts without, so far at least, taking the rest of the market with them. The phenomenon of 53 new lows on Monday and 66 on Tuesday, days when both S&P indices were effectively trading at their lowest levels of the past 27 months, is, in fact, a unique and interesting one.

It is here, we think, the battle will be joined, and our views on the future of the growth stocks, as readers of this letter are well aware, are anything but sanguine. Whether they will succeed in dragging the rest of the market down along with them, something they have not been able to do in recent weeks, is a question which should be answered shortly.

Dow-Jones Industrials (12:00 p.m.) 813.52
S&P Comp. (12:00 p.m.) 91.48
Cumulative Index (2/14/74) 585.98
AWT/jc

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