TABELL'S MARKET LETTER

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It has been, in a word, a market of almost incredible dullness. The week began as the previous one had left off with a sharp decline in the Dow-Jones Industrial Average, accompanied by more than a thousand declining issues. One would have thought, perhaps, that the stage was being set for yet another precipitous downward move such as the declines of mid-January and early February. Yet, despite continuing news of higher short-term money-market rates, the market moved higher in Tuesday's trading and continued dull for the remainder of the week.

The most notable feature of the week probably was the volume or, more properly, the lack thereof. For the past fortnight, daily New York Stock Exchange volume has been running in the 10-11 million share range, a level not seen since a short period in June of 1972 and, prior to that, during the normal period of dullness following the May, 1970, lows. Yet if the NYSE figures appear miniscule, consider American Stock Exchange figures. Volume West of Trinity Churchyard has been running consistently under the two-million share level, a rate about half of the still-depressed trading level of the end of 1973.

Quite obviously, the torpor of last week has done little to resolve any of the questions which beset the current stock market. We would like, therefore, to devote our space this week to expanding a bit on some of the thoughts we expressed seven days ago. The general tenor of last week's letter was that (1) we thought there was some degree of likelihood that the market might move lower, and (2) that we thought any such weakness should be used as a buying opportunity.

We were, with this pronouncement, doing two separate things, two acts that are often confused in investment thinking. We were --- in item 1 above --- making a forecast and --- in item 2 --- suggesting an investment strategy. As we suggested above, it is, we think, important to keep the two processes separate. Quite obviously, in an uncertain world, forecasts are necessary, and some expectation as to the probability of future price action is quite certainly a necessary component of any investment plan. Forecasting, however, as those of us who have been in the business of sticking our necks out for some period of time are well aware, continues to be a hazardous and uncertain art, and, with an embarrassing degree of regularity, forecasts made with all due diligence based on the best available data often turn out to be just plain wrong. Strategy, therefore, involves a great deal more than forecasting. It involves the formulation of an investment plan which must allow for what will happen if the forecast on which the plan is based turns out to be totally incorrect.

The forecast in last week's letter suggested a market which might move through the previous lows but not to a great degree. This, therefore, implied a strategy which involves the maintenance of reserves for the time being but the commitment of those reserves on any relatively minor down move in the market --- to, let us say, the 750 level in terms of the Dow. If the strategy is followed and the forecast turns out to be correct, there is obviously very little problem; the investor who became fully invested at the 750-800 range will wind up with some very attractive purchases. Strategy, however, must focus on the way in which the forecast could go wrong and there are, obviously, two ways in which this could take place. The first, of course, is a market decline greater than the one we now envision, the sort of thing being suggested by the vocal super-bears we mentioned in last week's letter. Were this eventuality to ensue, the investor would find himself 100% committed at the 750 level while the market continued to plummet. Yet, even in this case, it seems to us, the risk would be temporary in nature. The levels at which we are suggesting commitment of reserves would be ones offering incredibly sound fundamental value. It would appear to be totally unwarranted pessimism to suggest that stocks might sell for any great length of time below these levels as anything other than a temporary market aberration.

It is the other direction in which the forecast could turn out to be incorrect that, quite frankly, worries us a bit more, for a great many more investment problems would be posed, we would think, were the market to refuse to move toward or through the December lows and then begin to exhibit some strength. The strategy we have suggested would then leave the investor maintaining fairly large reserves which he had refused to commit at lower prices, with the possibility of a major advance staring him in the face. Nor would he be alone in this particular dilemma. The current high levels of institutional cash position suggests that the number of "poor Grenvilles" could be embarrassingly large.

In strategic terms, we are willing to put up with the first risk mentioned above and we know of no real answer for the second, except the continuing scrutiny of individual technical patterns and the pattern of the general market. We must reiterate that we see no reason at this point to alter our forecast of somewhat lower prices as a working hypothesis for putting together an investment plan. We would certainly, however, be willing to alter it were any evidence of improvement in upside momentum to develop.

Dow-Jones Industrials 844.81
S & P Comp. 92.12
Cumulative Index (4/10/74) 584.74
AWT/jb

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