# TABELL'S MARKET LETTER

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All right. We know that we have used the last three issues of this market letter examining the reasons for being bullish about stock price prospects, and we are likewise painfully aware that, starting on the day when we published the last of these effusions, the Dow-Jones Industrial Average proceeded to drop some 42 points before a rally this morning. After 20 years we have become thick-skinned enough to be inured to this sort of thing. Besides we can say, in all honesty, that we were not, in the series in question, suggesting the deployment of buying reserves. We were merely examining the conditions under which such reserves might be deployed.

So much for excuses. Where do we stand at the moment? In terms of the Dow, we have now moved out on the downside of a rather classic short-term head-and-shoulders top formation which suggests various objectives in the range of 800-780. The suggestion is, of course, a "test" of the December 5 low of 788.31. We have repeatedly stressed, as our readers are aware, the historical significance of this low. We noted last week that on only four occasions since 1926 has it been violated to later than April 26 of the following year. Whether 1974 will prove to be the fifth exception is a rather interesting question.

The problem is that, in restricting our discussions to the Dow, we are talking about only a rather small segment of the market. Most indices of first-tier growth stocks continued to plunge to new bottoms well after the DJIA low was made in December, and technical patterns clearly suggest that most of these issues have a fair amount of further room on the downside. Indeed, at least in part due to the weight given growth issues in its construction, the S & P 500-Stock Composite was, as of yesterday, already at a new 1973-74 low. For this index, the bear market continues. Our own Cumulative Index was, as of yesterday, a mere two points above the low it chalked up on December 24.

Part of the reason for the poor performance of the S & P 500 and also of the Cumulative Index can also be ascribed to the fact that a new villain has entered upon the stage, that villain being the utilities. Prior to last week's passed dividend by Consolidated Edison, we thought the market was responding somewhat better to unexpected bad news than it previously had been. The first omitted dividend since 1885 by a large and respected company was evidently, however, a bit more than it was prepared to take. The Dow-Jones Utility Average gapped on the downside (something we don't ever remember happening, although it may have occurred sometime in the dim, dark past) and plunged from a level of 86.69 last Friday to a close of 78.80 yesterday, a decline of 9% in five days in an index of supposedly non-volatile investment grade issues. It is an interesting, albeit somewhat disturbing fact, that the Dow Utility Average is, at today's prices, at a lower level than at any time since early 1958. As we said above, this has had something to do with the performance of the S & P 500 and of the Cumulative Index. The 500 contains 60 utility issues, weighted by capitalization. There are well over 100 utility issues listed on the New York Stock Exchange which are included, on an unweighted basis, in the Cumulative Index. Thus, the fact that these indices are at or flirting with new lows should be hardly surprising.

Thus, while admitting that the short-term prospect for lower prices is a real one, we confess we are inclined to view such a decline with equanimity. While the question of whether the Dow will penetrate the December bottom is an interesting one from an academic point of view, we do not think it is of overriding importance. The answer to the question will, in our view, be determined by whether a severe enough decline takes place in the growth issues (and perhaps now in the utilities) to drag the rest of the market down along with it. The whole point of our discussions in the last three letters was that we were becoming worried about an investment strategy which continued to stress the maintenance of buying reserves in a market which might not give us the opportunity to commit those reserves at lower prices. On any weakness around or to new lows by the Dow, we think that the commitment of those reserves would be indicated and would ultimately prove to be profitable.

Dow-Jones Industrials (12:00 p.m.) 825.95
S & P Comp. (12:00 p.m.) 89.55
Cumulative Index (4/25/74) 554.83
AWT/jb

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