TABELL'S MARKET LETTER

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The market this week on disappointing volume continued to move lower sparked by Wednesday's 18.93 decline closing near its December low of 788.31. Penetration of this low appears to be a foregone conclusion. However, the significance of such a penetration can be somewhat discounted as without exception all major stock market averages have already, in fact, broken their respective December lows. Utilizing point and figure analysis, a downside count, toward the area of the 1970 lows, of 730 is indicated.

The time has come, we suppose, to ask ourselves just what it is that is worrying the stock market. Quite obviously, there must be some ostensible reasons for the absolutely abysmal technical performance which the market turned in throughout most of 1973 and now in late May has begun to repeat. Let us try to tick off some of the supposed reasons.

High Interest Rates. Certainly it is plausible that the record levels of short-term interest rates should have a deleterious effect on stock prices. The effect, it can be argued, comes from a number of directions. First of all, the availability of unbelievably generous returns from practically riskless investments makes these investments attractive alternatives to stock, especially when stocks of late have done little else than go down. High borrowing costs obviously deter those few potential margin buyers left on the scene from utilizing their reserve buying power and lastly, it can be argued that, therefore, high borrowing costs place a squeeze on profit margins and thus cause lower earnings and lower stock prices in a great many industries, this argument being most persuasive in explaining the recent sharp drop in utility stocks.

Illiquidity. This is also a real threat on a number of levels. The liquidity of the banking system is in general at new record lows, and loan demand, while having moved irregularly lower, remain at extremely high levels. Obviously, most major banks would be unable to meet their commitments without the huge amounts of money attracted by certificates of deposit which they have been selling at record interest rates. Corporations, meanwhile, with the equity market effectively shut off to them by the present depressed level of prices have had to turn more and more to high interest rate short-term financing. The potential for collapse in such a structure is obvious.

The Middle East. The presence of armed conflict has a general tendency to make the stock market nervous, and it is certainly doubtful that the various Arab-Israeli outbreaks exercised a positive effect on the market. It is notable, however, that the market failed to rally in Wednesday's trading even after President Nixon's announcement of the Israeli-Syrian disengagement agreement.

Watergate. There are a number of analysts who argue that the uncertainties over the President's impeachment or resignation have caused a market climate which will make it impossible for stocks to move ahead until the issue is finally, one way or the other, resolved. The phenomenon of the "Johnson confidence boom" following President Kennedy's assassination in 1963 is cited by these analysts with the suggestion that the installation of President Ford by some means or another this summer might produce similar results.

The Securities Industry. The recent wave of brokerage house mergers and the reports of declining profitability have again raised doubts about the long-term future of the securities industry. The implications here are important also. While the existence of particular firms may not be important, a viable industry is a necessity if the American economy is going to be able to maintain its ability to raise capital. Serious doubts are being raised at the moment as to whether such viability, in fact, exists.

Now, as technicians, we think the significant fact about all of the above is that none of it will be any news whatsoever to anyone who has been even vaguely following the financial press. All of the above factors, it seems to us, consist not so much of explanations of why the market ought to head lower, but why it is where it is at the moment. Furthermore, again with out particular technical bias, we doubt that the amelioration of any one of the above factors is suddenly going to turn the market. We suspect, in other words, that, over the short-term, purely on technical factors, the market is headed into lower ground. At some point, a bottom will be produced, and it will not be because of any of the factors cited above. It will be simply because the last investor who can be panicked into dumping stock at lower prices has finally done so, and it will be precisely at that point, as has been the case throughout recorded history, that a turn in the tide will take place.

Dow-Jones Industrials (12:00 p.m.) 802.33
S & P. Comp. (12:00 p.m.) 87.32
Cumulative Index (5/30/74) 512.20
AWT/jb

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