TABELL'S MARKET LETTER

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To a greater degree, perhaps, than at any time in at least the recent past, Wall Street finds itself divided between proponents of the bullish and bearish case for the equity market outlook. Both sides, of course, have ammunition. The optimist will suggest that the December low in the Dow-Jones Industrial Average has now been twice decisively tested. After an intraday bottom of 783.56 was reached last December, the Dow declined in February to an intraday low of 795.68 and then promptly rallied in March to a new 1974 high. The subsequent decline reached an intraday bottom last week at 788.90, whereupon a four-day, 42-point advance bounced the index off that low yet a third time. What more evidence, the optimist can ask, is needed to prove that a strong level of effective demand exists around the 800 level?

"Dow-Schmow," replies the bear. Any true index of security prices, he will suggest, has moved on to decisive new lows, well below its levels of last December. Consider the S & P 500 Stock Index. It broke its December low in February, penetrated that low again in April and moved to another new low last week. And lest it be argued that this is true because of the importance in that index of utilities which, as we all know, are faced with problems of their own, it can be pointed out that the S & P 425 Industrial Index, which includes no utilities, has done almost precisely the same thing. The pessimist can also suggest that the Dow-Jones Transportation Index and the S & P Rail Index have also moved below their December lows, although here the argument is not quite as strong, since both these indices, to date, made their bear market lows back in August, 1973, not in December, and those lows have not as yet been penetrated.

Bulls and bears, likewise, can find arguments to buttress their position in a whole host of more esoteric technical indicators. A few of the more widely followed indicators turned quite bullish last December, but only a very few. Others have turned bullish quite recently, and still others remain in an ambiguous state, generally favoring the optimistic view, but not yet having reached levels which have characterized past major bottoms.

The question is whether, at this precise point in time, it is necessary to take a position at all. We can clarify this assertion, perhaps, by examining the nature of technical indicators in general.

When one sets oneself to the task of creating a technical indicator which is going to suggest a source of action, that indicator will be subject to two risks --- akin to what statisticians call alpha and beta risk. The first risk is that the indicator will suggest a course of action which later proves to be erroneous. The second risk is that it will fail to suggest a course of action which later proves to have been the correct one. Generally, there tends to be a trade-off between the two sorts of risks. It is not difficult to construct a whole series of indicators, for example, which have, in the past, successfully identified every major stock market bottom within a very short time after the fact. The trouble is that such indicators generally have a low degree of reliability and will often turn positive at points other than market bottoms. It is equally easy to construct indicators with a very low percentage of "false" signals. The trouble is that such indicators generally do not turn positive until a large percentage of the advance, both in terms of time and amplitude, has already taken place.

Our approach has always been to follow both types of indicators and adjust investment posture slowly, first as the more sensitive indicators begin to turn positive, and then more aggressively as the high-reliability indicators turn. In this light, it is well to review where we are at the moment.

Even the highly sensitive sort of technical indicator has not, as of this moment, turned positive --- although it would take just a bit more market strength for this sort of device to suggest that stocks were a buy, at least on a trading basis. Were this to start to happen and, as noted above, it could do so at any time, we would be willing to advocate at least a partial commitment of reserves, and we would follow it up with more aggressive commitment if, as, and when the more reliable sort of indicator began to turn positive. To date, as we suggested above, no real change in the pessimistic technical picture has yet taken place. Yet the sorts of changes that could tip the scales decisively in favor of the bullish or bearish arguments is probably fairly imminent, and we will continue to comment on these changes as they occur.

Dow-Jones Industrials (12:00 p.m.) 853.10
S & P Comp. (12:00 p.m.) 92.62
Cumulative Index (6/6/74) 535.08
AWT/jb

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