TABELL'S MARKET LETTER

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Last week's market performance can best be characterized as insipid.

In five successive days of decline, through Thursday, the Dow managed to retrace the bulk of the ground it had gained on the advance in late May and early June, in response to signs at that time of easing of interest rates. Volume was just as unimpressive as the performance of the market itself, remaining for the most part in the 9-10 million share range, with late Thursday afternoon trading being the only period in which any sort of flurry of activity developed. Nor was the performance of any of the other indices a great deal better than that of the Dow. The Dow-Jones Utilities, for example, spent the week moving to a new bear market low, and it is interesting to note that that index is now at the lowest level it has seen since a few months around the time of the 1957 bottom.

It is, in sum, difficult to find anything to get excited about in the market performance, although a number of reasonably favorable "background" factors remain. Mutual Fund cash position, for example, was up again in May, to almost 10.6%, and mutual funds actually enjoyed an excess of sales over redemptions for only the third time since early 1972. This, of course, was due to the cash inflow into the new money-market funds but, even adjusted for this inflow, the net redemption figure was moderately impressive.

It is possible to find some solace, also, in the developing patterns of individual stocks, and it is the area in which improving patterns are being seen which is to us, as technicians, of interest. Every once in a while the market will begin to show action which flies in the face of generally-accepted conventional wisdom. In early 1968, for example, the Vietnam war was at its height, with absolutely no prospect of withdrawal in sight. Yet throughout the first quarter of that year, the technical action of "peace" stocks, those companies which would be beneficiaries of the end of the war and increased consumer spending, was consistently superior to that of companies presumably benefiting from the level of war activity. At the end of March, it will be recalled, President Johnson made his momentous decision not to run for reelection that fall and to seek a cessation of the Vietnam hostilities. The result was the famous "April Fool's Day rally," which touched off what was ultimately to be a 170-point advance in the Dow, with the so-called "peace" stocks leading the way. It is perhaps worth noting that only the prospect of Vietnam peace was enough to set the rally off. Peace itself did not occur until four years later.

Again in 1974, the stock market patterns that seem to be developing fly in the face of current conventional wisdom. We are assured on all sides that the outlook for consumer spending is bleak, and that it is likely to turn down sharply in the second half of the year. Yet a careful inspection of stock patterns suggests that among the better ones are those belonging to a whole group of companies that would benefit from increased consumer spending.

One obvious such area is the retailing industry, and the bulk of retail stocks, and there are a great many of them, appears to show, at the moment, distinctly improving price action. But the improvement is by no means confined to retail issues alone. Hotel and motel stocks, for example, most of which have been clobbered over the past year by the prospect of reduced travel due to the energy crisis, have begun to move sideways and to develop impressive base patterns. The same is true of airline issues whose incremental profits, at least, tend to come from an increase in vacation travel. Automobile stocks, despite sagging sales, show signs of basing and the same is true of selected building issues --- at a time when we are reliably assured that high interest rates will strangle home building in the second half of 1974 and early 1975. Thus --- while economic analysts are assuring us of the imminence of the apocalypse, a recession led by reduced consumer demand and lowered real income --- the market seems to be trying to indicate precisely the opposite, that the second half of 1974 and the first half of 1975 will be characterized by "business as usual", with a concomitant increase in at least some corporate profits. It will be interesting to see in the present instance who is correct.

Dow-Jones Industrials (12:00 p.m.) 816.57
S & P Comp. (12:00 p.m.) 87.60
Cumulative Index (6/20/74) 510.23
AWT/jb

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