TABELL'S MARKET LETTER

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We outlined in last week's letter our thought that the behavior of the Dow-Jones Industrial Average in the rough 650-680 area would be important and suggested that the market's continued ability to hold in that range would be constructive. It did not quite manage to do so in last week's trading, dropping to a closing low of 636.26 on Thursday and an intraday low as low as 624.30. We are nonetheless not all that discouraged by the week's behavior, and close scrutiny of individual chart patterns for major listed stocks, in our view, lends a good deal of encouragement to one's market outlook.

In nervous and volatile markets (and this one approaches setting records in both categories), it is often unwise to spend a great deal of time trying to pinpoint short-term targets either for the averages or for individual stocks. The basic question facing the investor at this point in time, it seems to us, is whether the wild fluctuations which have characterized September and October, 1974, constitute nothing more than a way station on the road to disaster, as the widely-publicized gloom-and-doom proponents would have us believe, or whether they constitute part of a process which will ultimately lead to a worthwhile reversal.

Rational examination of the market's action must, in our opinion, incline the analyst toward the latter view. We suggested in this space last week that the momentum of the six-day advance of October 7-14 was historically almost unprecedented and that it was necessary to go back to the 1930's to find rallies of equal magnitude. It was advances of this degree that characterized the bottoms of 1932 and 1938. As we admitted last week, there were three rallies of similar strength during the market's sickening slide during the 1929-32 period, and we are perfectly willing to acknowledge that, if one sincerely believes a major depression is in the offing, he can point to these as evidence that the past couple of month's market action is essentially meaningless. Not being ourselves inclined toward that view, we tend to think it has somewhat more significance.

It is really, as we suggested above, to the action of individual stocks that one must turn if he wants to gain some insight into the rather amazing things that have been taking place in the marketplace of late. Not only was the velocity of the Dow's reversal unprecedented for the postwar period, but the advances of individual stocks were equally amazing. We compiled recently a study measuring the percentage advances of major NYSE and ASE issues from their lows for the week ended Wednesday, October 9, to their highs of the week ended October 16. We eliminated from the study all stocks selling under $15 a share, since lower-priced stocks tend normally to demonstrate a high degree of volatility. It turned out that during the period, a short 6-10 trading days long, a total of 153 issues advanced 30% or more, with 46 advancing more than 40%, twenty more than 50%, and five better than 60%. This sort of thing, it seems to us, is more than simply evidence of market frenzy. It seems to suggest a fairly high degree of latent demand for stocks at current levels, and, in some cases at least, a lack of any sort of meaningful supply.

More subjective measurements point in the same direction. As one goes over individual chart patterns, he cannot fail to be impressed not only by the sharp reversals that have taken place but also by the number of instances where the downward movement of 1974 to date has been replaced by lateral action. A fairly significant number of stocks, it seems to us, has fluctuated back and forth sufficiently over the past few months to form potentially meaningful base formations or at least to make a start on such formations.

So, for that matter, has the DJIA itself. The Dow closed, 42 days ago, on August 26, 1974, at 688.13, 51.87 points above its close of last night. If one adds up the total of the hour-to-hour changes for those 42 days, however, one finds that they total an astronomical 944.55 points, 446 points up and 498 points down. In 42 days, in other words, the Dow has managed to post total hourly fluctuations almost 1 1/2 times as great as the total value of the index.

There is, in sum, something going on out there and it is, significantly enough, going on at a time when equities, on an historical basis, represent as good value as they have at any time in the past 30 years. Market reversals take many forms and many shapes, and we think it would be foolhardy to try to predict the exact shape of the ultimate turn out of the current downswing. The point is that the evidence in favor of an aggressive attitude toward the stock market seems to us today a great deal more compelling than it has been in some time.

Dow-Jones Industrials (12:00 p.m.) 636.50
S & P Comp. (12:00 p.m.) 70.32
Cumulative Index (10/24/74) 391.84
AWT/jb

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