TABELL'S MARKET LETTER

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The stock market has a nasty habit of shattering the hopes of those who wish to squeeze it into neat little categories, and it did so once again in last week's trading. We had discussed in this space three weeks ago the possibility that the Dow-Jones Industrial Average was forming an almost classic head-and-shoulders base formation with a potential "right shoulder" in, roughly, the 630-680 range. That particular possibility was disposed of last week, as what might have been a "right shoulder" was penetrated sharply on the downside. Viewed as a distributional top, the formation implied a test of the October 4 low, 573.22 on an intraday basis, which test was indeed taking place at week's end as the average flirted with the 600 level.

It is now, of course, necessary to ask what, in fact, has been altered by the week's market weakness. Certainly not the various indicators of market psychology which suggest a pervasive state of pessimism --- pessimism of the sort normally accompanying important lows. The weakness does not alter the fact, for example, that mutual fund cash position remained at record levels for the third month in a row in October, after reaching an almost astronomical 13.5 percent of total assets in September, this, incidentally, after adjusting for the presence of money-market funds. Nor does this week's downswing cancel out the unusually high levels of short selling recorded as the market rose during October. In three of the four weeks of that month, short sales were in excess of 10 percent of total volume, again, a level normally attained at important lows.

Nor can the weakness alter what has already taken place, such as the astonishing reversal momentum of the October 4-11 period, which we have discussed in this space in the past, suggesting that it is the sort of thing characteristic of past bottoms.

The question which really needs to be asked at this juncture is whether last week's market downturn alters the basic conclusion that the market moved, in early October, out of a downtrend into what eventually will turn out to be an accumulation area of some sort. We do not, in sum, think that that conclusion is changed by last week's action. The only change, we think, is in the shape and timing of the potential base.

Rather than rebounding from the 630-680 level as we might have hoped it would do, it now becomes obvious that further accumulation must take place at lower levels, levels around, or perhaps even slightly below, the low of October 4. There is ample historical precedent for this sort of thing. In May, 1970, the last major market bottom, it is true, the Dow, after rebounding from the 630 level to over 700, rebased at the 680-720 level and then moved ahead on the upside, never seriously testing the May low. Similar action took place in the period October, 1957-April, 1958. In 1966, however, after reaching a climactic low in August at around the 760 level, the Dow, after rallying to approximately 820, plunged to a new low of 736 before completing its base formation. Likewise, in 1962, the May low around 550 was penetrated on two separate occasions, first in June and then again in October before a market advance finally ensued.

What we are saying, of course, is that, throughout market history, base formations have taken many varied shapes, and there is no way of predicting what shape the current one will assume. We are suggesting, moreover, that a slight penetration of the early-October lows would not, of necessity, be a cause for alarm. The real question is whether or not we are now in a basing process. We think that the psychological factors referred to above, plus the obvious downtrend penetrations by a large number of individual issues, strongly suggest that sort of process is currently under way.

Dow Jones Industrials (12:00 p.m.) 615.77
S & P Comp. (12:00 p.m.) 68.98
Cumulative Index (11/21/74 378.53
AWT/jb

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