TABELL'S MARKET LETTER

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We undertook last week the melancholy task of reviewing the year 1974 in preparation for a forecast for 1975. We were forced to point out that the Dow-Jones Industrial Average had taken a 31% shellacking on top of a 25% decline in 1973 and that our Cumulative Index, in our view a more accurate measure of the true performance of the average NYSE stock, had lost more than three-quarters of its value since its high of 1968. It is against this background of almost total carnage that we must survey the outlook for the year ahead.

Before venturing a prediction, a cautionary word regarding attitude appears appropriate. Bernard Baruch once remarked that one of the most useful exercises for the investor was to continually repeat to himself that 2 plus 2 equals 4. Baruch, actually, was referring to the irrationality that normally accompanies bull market tops. However, as technicians are well aware, tops and bottoms are often mirror images of each other, and we think the advice is equally applicable in the sort of slough of despond in which the stock market now finds itself. It is all too easy for the investor, bruised and battered by the lambasting he has taken over the past couple of years, to forget the fact that stocks have been and will be again vehicles for capital appreciation.

Those who have studied markets are only too well aware that a substantial rebound from the ultimate low, wherever and whenever that low may occur, is a virtual certainty. The problem, of course, lies in the timing and identification of that low. In one sense, the investor with resources and patience can afford to be unworried, even about the timing. We indicated last week that the current earning power behind the DJIA can today be bought at the lowest price in recorded history. Regardless of what may take place in the interim, we think, as we have repeatedly stated, that the prices at which high-grade equities are currently available will prove, in the light of history, to have been amazing bargains.

In order to put together a 1975 forecast, it is necessary to look at both the technical and fundamental outlook. The consensus economic forecast developing for 1975 calls for a deepening recession with the decline of perhaps 20% in overall corporate profits and a drop of, perhaps, 10% in the earnings of the S & P 500. Quite clearly, a market valuing the latest 12 months earnings at the figure it is currently valuing them, is worried about something a good deal worse. And yet, we know of few reputable voices talking about anything substantially worse than the above scenario. The spectre of worldwide depression is, admittedly, there, but it would hardly seem to be the foregone conclusion the market is saying it is. Without venturing into the murky waters of economic forecasting, we should only like to point out that it has been profitable, at most times and in most places, to bet against the apocalypse. It is also worth pointing out that, in the light of hindsight, the most profitable times to buy stocks have been those when whatever economic hobgoblins were built into the market's price structure have failed ultimately to materialize --- i.e., the "inevitable" postwar depression of 1949.

From a technical point of view, there are various factors to be considered in looking into the upcoming year. Not the least is the decennial pattern, unusually reliable at this point in the decade. It will be recalled that this pattern tells us that all years ending in "5" in this century have been up years for the stock market. It is worth noting, also, that 1976 is a presidential election year, an occurrence which has also tended to favor rising markets. We have also suggested in this letter in the past that many of the preconditions for a market bottom have recently been present, such as a record level of institutional cash position. What has been absent so far, at least, in terms of obvious clarity, are the signs of a sort of selling climax which has terminated in so many bear markets in the past. We have also noted, however, that in deeply soldout periods, such as the present one, such a climax is not a necessary precursor to a market turn.

Also relevant to a forecast is the action of individual stocks, which suggests that, in many cases, despite the move of market averages to new lows, earlier lows, some going as far back as 1971, are, in a number of cases, being held. Individual chart patterns suggest that a number of issues, perhaps a fairly substantial number, are, at least, running out of steam on the downside.

Thus, a forecast for early 1975 must, it seems to us, call for continued testing of the recent lows possibly including some slight penetration of those lows. It seems, however, sensible to expect that the long, two-year bear market, if not already ended, will come to an end sometime fairly early in 1975. This does not necessarily call for an immediate advance. It should be noted that the process of rebuilding individual base patterns will be a long and arduous one. It therefore seems illogical even if the market is to make a low in early 1975 to expect any sharp rally, at least in the early part of the year. Depending on how quickly bases form, however, the outlook for the latter part of 1975 could be considerably better.

The prophet Isaiah reminds us that to everything there is a season. 1975, in our view, will be the season for planting of the stock market profits of the second half of the 1970's.

WE WISH YOU ALL A HAPPY AND PROSPEROUS NEW YEAR.

Dow-Jones Industrials (12:00 p.m.) 603.18
S & P Comp. (12:00 p.m.) 67.40
Cumulative Index (12/26/74) 353.39

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AWT/jb