TABELL'S MARKET LETTER

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It is always pleasant to return from vacation and find that the market has acted satisfactorily in one's absence, and "satisfactory" is certainly an adequate description of the market's behavior over the past three weeks. The year-end rally materialized on schedule and with heartening vigor. As was noted in last week's letter, a year-end advance in excess of 10 percent has often been a harbinger of a good market year, and this has now occurred, the advance from the December 6 low of 577.60 to the high as of this writing being about 14 percent. Before waxing too euphoric, however, it should be noted that, from a technical point of view, the severest test for stock prices lies ahead, and the market's ability to pass this test will go a long way toward determining price probabilities for 1975.

It is thus worth examining recent price action in some detail. The base or platform from which the year-end rally started began its formation around mid-November. During the latter two weeks of November, the Dow, having broken from 675-650 level, held, on an intraday basis, between 600 and 625. In the first week of December trading, it broke to around the 575 level, exceeding its October low in the process by a small margin. Until the year-end rally finally erupted in the last week of 1974, most of December's trading took place in roughly the 590-605 area. Since the base constitutes two separate trading ranges, that of late November and the one in December, there are two possible upside projections. The first of these is arrived at by counting only December trading as part of the base. Under this interpretation, the upside objective was around 640-645. If the November portion of the base is included, however, the objective becomes broader and centers around the 670 area.

These two alternate interpretations, it seems to us, are of more than just passing interest, because the area between current levels and the 670 level on the Dow is one of tremendous technical significance. When the market broke sharply from the 850 level in the bloodbath of last summer, the decline was arrested during the latter part of August at roughly the 650 level. With the exception of a short two-day break in early September, most of the trading during the latter part of August until the end of September centered around the 650-675 level. The break to the October lows and the subsequent rebound back to the 650-675 level took only two weeks in early October, and the market then spent another six weeks where most of the trading again centered around 650-675. We have, in other words, ten weeks of trading --- trading, incidentally, in which volume was running at its highest level of the year --- in which the Dow was approximately at its current price level.

It is an elementary fact of technical analysis that this area constitutes effective overhead supply, and, therefore, the market's behavior at the present juncture will be interesting. Friday morning's rally, which pushed the index into this supply on heavy trading, exceeding by a considerable margin the narrow 640-645 objective, is constructive. Continued ability to press into the supply with vigor and attain its second rally objective of 670 would also augur well for the technical health of the Dow. Even were this to occur, however, the most severe test would lie ahead.

We think it illogical to expect the Dow to penetrate the entire overhead supply of August-November (supply which extends all the way up to 690) on the first attempt, and we expect that, even if the market continues higher from here, that some consolidation or correction will be necessary as the supply of last fall exerts its effect. Could the supply ultimately be penetrated, however, the outlook would be rosy indeed. Last summer's decline was sharp and on low volume, so that if the Dow were able to move above its fall high, no meaningful resistance would be encountered until around the 850 level and, indeed, 850 is the logical upside objective if one views the "double bottom" of October-December as a potential base. It should be noted that if an advance to 850 were to materialize, it would constitute roughly a 47 percent move off the December lows, normal for the initial phase of the bull market.

The above, it should be noted, is in no sense a prediction but rather a statement of the sort of potential which exists. As of this writing, of course, the market has just begun to push into the overhead supply at 650-675. It remains a long way from breaking above that supply at 690. It may very well not do so, and the shape of the base for the next advance would then be quite different from that described above. The potential, nonetheless, is there, and we think it should be factored into the investment equation as we move into 1975.

Dow-Jones Industrials (12:00 p.m.)	657.78
S & P Comp. (12:00 p.m.)	72.57
Cumulative Index (1/9/75)	389.19

AWT/jb

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