TABELL'S MARKET LETTER

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The major averages, over the past two weeks, have essentially moved sideways, with a rally in the Dow on Wednesday and Thursday erasing much of the decline from the January high. Along with the Industrial Average, the Transportation and Utility Indices have also essentially been moving in lateral trading ranges.

None of this should be particularly surprising. We pointed out in this space on January 10 that one of the major factors affecting future market action would be the existence of heavy overhead supply at the 650-675 level in terms of the Dow. It seems logical to us that what the Dow has been doing in its meandering of the past couple of weeks has essentially been chewing away at that supply. Where, when and how that overhead supply will be penetrated is, of course, one of the great unanswered questions insofar as the 1975 stock market outlook is concerned.

The reader will note that we did not, above, raise the question of whether it will be penetrated. We have been reaffirming in this space for the past three months our belief that the trading range in which the market has held since October will ultimately be part of a base for an upside move. Obviously, implicit in this contention is the belief that, at some point in time, the upside barrier which, last week, was effectively holding back prices will be breached.

The question at the moment is whether this upside penetration can take place with only consolidation at current levels or whether a noticeable pullback is required, followed by a rebasing period and a later renewed attack on the supply. There exists at the moment no distributional top which would suggest a serious pullback, but this is not to say that one could not be formed were continued backing and filling to take place around current levels. Were such a top, in fact, to form and a downside penetration to take place, our own view is that it would be a wise move to be a buyer of equities as downside objectives of that top were reached.

It would, however, not be without precedent for continued consolidation at around the 640-660 level to be followed by a renewed upside attempt. As of two weeks ago, the market, as measured by most short-term indicators, had reached an extreme overbought condition --- an overbought condition approaching record levels in the case of some indicators, especially of the sort which measure market breadth. The existence of such a condition at that time was not, in our view, necessarily bearish, since it is common and normal for the initial rally of a larger upmove to attain an extremely overbought level. At this point, the overbought condition has already been corrected, to be replaced by a neutral one in which the market, by most measures, remains neither overbought nor oversold. It is again not without precedent in the early stages of a bull market for an initial rally to be followed by nothing more than a return to such a neutral condition and then, after some consolidation, continue the advance. Thus, another attack on the overhead supply from levels close to current ones would not be unusual and could even be viewed as constructive.

The above discussion has, necessarily, been in terms of the averages, yet it is an unfortunate stock market truism that at any given point in time the averages tend to mislead us in one way or another. We think that one of the ways in which the averages are misleading at the moment centers around the fact that, after a seven-year bear market, prices of most individual stocks have reacted to abnormally low levels. A larger percentage of low-priced stocks now exists on the New York and, certainly, on the American Stock Exchanges than at any time in recent memory. A recent check of the 1500 major companies which we follow on a regular basis, for example, showed that an astounding 1100 were selling under $20 a share. We think this fact is of some importance. Due to the construction of the averages, it is difficult for these companies, with their low market value, to have much effect on those averages' movement. Yet these vast numbers of low-priced stocks represent opportunities in the universe available to the individual investor. Close scrutiny of the price patterns of these issues reveals, in fact, that many are showing technical improvement which, in some cases, verges on the dramatic. Coupled with this is the fact that percentage price volatility has historically tended to be greater for lower priced stocks. There is, in other words, available to the investor a fairly large number of possible purchases which could be highly profitable on a percentage basis and yet not affect the averages a great deal. The averages may, indeed, mask some of the opportunities that have been and will be available to the individual equity buyer.

Dow-Jones Industrials (12:00 p.m.)	659.89
S & P Comp. (12:00 p.m.)	72.31
Cumulative Index (1/23/75)	408.17

AWT/jb

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