TABELL'S MARKET LETTER

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February 28, 1975

For the first time in 1975 so far, investors were reminded, this week, that it is possible for the stock market to do something besides go up. In a sharp two-day decline in Monday's and Tuesday's trading, the Dow gave up some 30 points descending from 749.77, the high for the rally to date, to a Tuesday close of 719.18. Much of the ground lost, however, was regained in Wednesday's and Thursday's trading.

The decline, although the sharpest to interrupt the upswing so far, was still a relatively mild affair. True, more than 1000 stocks declined on both days but this contrasts, interestingly enough, with the fact that we have had no fewer than 12 days since the rally started on which the market saw more than 1000 advances. Volume was also relatively light, dropping to an average of 20 million shares versus the considerably higher levels which previously had been chalked up on the upside. What was interesting was the nervous reaction which seemed to permeate the financial community. This, in our experience, is a fairly typical phenomenon during the first moderate decline following a major market bottom. The memories of the bear market remain too much with us, and a couple of sharply-down days awaken fears of its revival, even though rational analysis tells us that this is unlikely to be the case.

From a technical point of view, the drop has little significance. It met support where one would expect it to do so, at around the 710 level and the most probable course of action from there on out would be the building of a new short-term base, preparatory to further attempt at new bull market highs. About the only thing that would suggest that something more serious was in the offing would be a downside penetration of 700 which would indicate a test of the support at around 675. For the moment, at least, we would tend to regard this latter course as a possibility rather than a probability.

What the week's weakness may be suggesting is some moderation of the rather amazing rate of advance that has characterized the rise so far. The DJIA is up, after all, some 30% since the rally began on the 6th of December, this in a period of just 54 trading days. Since the first of the year there have been only four periods when the market declined, as measured by breadth, for two or more consecutive trading days, and the longest period we have seen so far in which the market failed to make a new high has been under two weeks.

Concomitant with the rally and undoubtedly a partial cause (although not, as many analysts seem to believe, anything approaching the entire cause) has been an almost unprecedented rally in short-term interest rates. The prime rate, as we all know, has dropped from a level of 12% to under 9% in just five months. The treasury bill rate, almost 9% late last summer, has plummeted to close to 5% in recent weeks, and other short-term interest rates have been descending with almost equal rapidity. We have returned, and we think this is of some significance, to the normal yield curve in which longer bonds offer yields in excess of shorter ones. The so-called reverse yield curve of last summer was, of course, an expression of investor expectations --- of the fact that relatively high short-term rates were not expected to be permanent. The fact that long and short rates are now in a more normal relationship to each other may indicate that the rally in short-term instruments may be close to at least a slowdown.

As we said above, all this is suggestive, not of the fact that the rally is over, but that its most dynamic phase lies behind us. The initial rally of a bull market historically does nothing more than recoup the most irrational phase of the previous bear market. It was, after all, only last September that the Dow was selling under six times earnings and protected dividends were offering 10-12% yields. It is certainly arguable that such levels were, by any objective standards, irrational, and the rally has done nothing more than make them another episode in the history of the stock market's occasional aberrations.

Typically, as an upswing moves into a less ebullient phase, stock selection becomes more and more important. This is particularly so in the present instance. As the present rally has progressed, more and more stocks have moved into the clearly defined minor uptrends, and we would expect this phenomenon to continue. The problem is that many of these issues, while their technical patterns suggest higher levels, do not, as yet, appear to have sufficient base patterns to suggest major upside reversals. We recently compiled a list of stocks in major downtrends where the minor-uptrend objective is less than the price that would be required to score a major upside breakout. The list includes 328 issues, a fairly sizeable number. Quite obviously, some of these will broaden their bases and evidently attain major-uptrend status. A great many others, however, are probably best regarded as sales on strength.

Luckily, however, as the market moves into the sort of sedate phase where selection becomes important, leadership tends to become more clearly defined and, from a technical point of view, the process of stock selection becomes somewhat easier. If in fact we are now entering into such a phase, it will be incumbent on the investor to adjust his portfolio , which by now, certainly, should be aggressively committed to equities, to take advantage of it.

Dow-Jones Industrials (12:00 p.m.)	730.84	ANTHONY W. TABELL
S & P Comp. (12:00 p.m.)	80.80	DELAFIELD, HARVEY, TABELL
Cumulative Index (2/27/75)	454.42	

AWT/jb