TABELL'S MARKET LETTER

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The market has been undergoing, in the past two weeks, what may be called the first significant respite in the almost unprecedentedly sharp advance which began on December 6 of last year at 577.60 on the Dow and which carried 36.2% to 786.53 on March 17, a period of 68 trading days. Over a five-day period ending on March 24, the Dow lost some 43 points for a 5 1/2% correction before rallying sharply on Tuesday and Wednesday a week ago to reach a closing high of 778.26. Since that time, the averages have again declined, with some wide intraday fluctuations, and, as of this writing, are testing last week's lows. This strikes us as perfectly normal action since, at the lows of two weeks ago, most market indices, the Transportation and Utility averages as well as the Industrials, had reached the downside objectives of the small tops that had been formed. Thus, a period of fluctuation will be necessary in order to build a base for a new leg of the advance.

As was predictable, with the unpleasant memories of 1973-74 so fresh in our minds, the first sign of any downside activity brought forth the usual rash of predictions that the bull market was over or that, indeed, it had not been a bull market at all, but only an interruption in the plunge into the abyss which purveyors of the apocalypse had assured us was coming. This latter sort of reasoning seems to us to be particularly specious. Even if St. Patrick's Day, 1975, proves to have been the high point of the advance (which, in our view, is highly unlikely), it requires an act of supreme semantic contortion not to call a 36% advance a bull market. Those forecasters who have been consistently calling for lower levels and those investors who spent the first quarter of 1975 sitting on large piles of cash have, quite frankly, missed the boat and can best start off by admitting the fact.

The real question, of course, is just what is the technical significance of the downswing. As we have pointed out in this space in the past, the tendency of bull markets in the postwar period has been to go a great deal longer than 68 trading days before the first 5% correction ensued. We think the fact that one has taken place this early is just another demonstration of the fact that markets of late have taken on a great deal more volatility, a volatility in many ways more characteristic of the 1930's than of the postwar period. The downswing from January 11, 1973, through October, 1974, for example, had no fewer than 23 swings of 5% or more. It is highly possible that its upside aftermath will demonstrate a like volatility. It should be noted, moreover, that in no bull market since the 1920's has the first 5% correction denoted the end of the upswing. It has most often denoted a loss of momentum and meant that the rate of advance compared with that of the initial rally was becoming relatively more slow.

This is, we think, the case in the present instance. We have been using for some time a projected upside target of 850 for the Dow and have been unwilling, by and large, to look beyond this. The 850 figure is arrived at in two ways. It is, first of all, the most plausible upside objective for the base formed in the October-December period, and it is confirmed by the bases formed on other averages beside the Dow, almost all of which suggest a move of like magnitude. Secondly, 850 constitutes an area of significant overhead supply. For a period starting with the last two weeks of November in 1973 and continuing through the end of June, 1974, the Dow spent most of its time trading in a range between, roughly, 825 and 875, with only occasional downthrusts below this area, to around the 790 level. It did this, moreover, on fairly heavy volume, especially in the early part of the period. It has long been our contention that the market's behavior when this supply was reached would be the major determinant of its future action. We are now reaching the point where such a test is taking place, the Dow having backed off two weeks ago from the very lowest part of this supply. Moreover, a great many individual stocks, which have outperformed the averages, are now reaching the price levels at which they traded in the early part of 1974 before the final phase of the bear market break. In a great many cases, these individual issues, predictably enough, have begun to back and fill as they reach their individual supply areas.

Our own feeling, then, is that the most likely market scenario is more or less as follows. We would expect the advance in the averages to continue, in fits and starts, and with wider swings back and forth, to around the 850 level. We would expect that that level will provide sufficient resistance to restrain the market on the upside for probably the remainder of 1975. If individual stocks in significant numbers begin to move through their 1974 supply levels, it would be bullish, indeed, and possible to project a highly constructive market climate for 1976 and beyond. If the overhead supply turns out to produce significant distribution, however, a reassessment of the outlook at that point would then be warranted.

Dow-Jones Industrials (12:00 p.m.) 749.92
S & P Comp. (12:00 p.m.) 81.26
Cumulative Index 4/3/75 466.06
AWT/jb

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