

TABELL'S MARKET LETTER

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We first suggested in this space on January 10 that the most plausible upside objective for the Dow, assuming the October-December, 1975, double bottom to be a base formation, was 850. This week, less than four months later after a move which astonished most observers, including ourselves, by its rapidity, the Dow reached a closing high of 855.60, thus attaining the objective of the base completed in the latter three months of last year. As we have been noting in recent issues of this letter, the momentum of the advance should from this point on be more severely tested, since the overhead supply of stock existing at current levels remains heavy.

We have, since January, been using the Dow as a benchmark for talking about the general market and, indeed, if one looks at the performance of that index versus the other major indices since the lows of last October, there is really not much overall difference. The Dow, as of Monday, was 46.3% above its October low, the S & P 500, 44.6% and our Cumulative Index was lagging slightly behind, having posted a 35.5% advance from its October bottom. However, if one breaks the performance of the three indices into shorter time intervals, an interesting phenomenon emerges. The following table shows the level of the three averages at various turning points between October 4, 1974, and May 5, 1975.

	DJIA	% Chg.	Cum % Chg.	S & P	% Chg.	Cum % Chg.	CUM.	% Chg.	Cum % Chg.
10/4/74	584.56	-	-	62.28(10/3)	-	-	355.91	-	-
11/5/74	674.75	+15.4	+15.4	75.21(11/7)	+20.8	+20.8	410.31(11/11)	+15.2	+15.2
12/6/74	577.60	-14.4	- 1.2	65.01	-13.5	+ 4.3	359.99	-12.3	+ 1.1
1/10/75	658.79	+14.1	+12.6	72.61	+11.6	+16.6	399.50	+11.0	+12.2
1/21/75	641.90	- 2.6	+ 9.8	70.70	- 2.6	+13.5	403.56	+ 1.0	+13.3
3/17/75	786.53	+22.5	+34.6	86.01	+21.6	+38.1	491.52	+21.8	+38.1
3/24/75	743.43	- 5.5	+27.1	81.42	- 5.3	+30.7	466.98	- 5.0	+31.2
4/17/75	819.40	+10.2	+40.1	87.25	+7.2	+40.1	483.20	+3.5	+35.8
4/29/75	803.04	- 2.0	+37.3	85.64	- 1.8	+37.5	478.64	- 1.0	+34.4
5/5/75	855.60	+ 6.5	+46.3	90.08	+ 5.2	+44.6	489.55	+ 2.3	+37.5

What is quite clearly shown is that the Dow was underperforming the other averages during the base-building stage of the advance from October to December and about equaling their performance on the initial phase of the rally from January to March. Since that time, the Dow has been outperforming the other averages and in effect has caught up with them and passed them.

As the table shows, the first obvious instance of underperformance by the Dow was its move to a new low in December which both of the other averages refused to confirm. Its October-November rally was considerably less than that of the S & P and its November-December decline was steeper. In mid-January, of course, all three averages broke out of their base formations and staged the most dynamic phase of the advance, terminating on St. Patrick's Day, 1975. For this period all three of the advances were similar, but the Dow, having underperformed previously, was still lagging the other two. As can be seen, however, the recent history is just the reverse. The Dow has clearly outperformed both the S & P and our Cumulative Index on both the March-April and April-May rallies, and the S & P 500 has, equally noticeably, outperformed the Cumulative Index. Quite obviously, the most recent month and a half of the upmove has been concentrated to a large degree in Dow-Jones components.

What are we to make of all this? It is, first of all, not that unusual a phenomenon, very possibly caused by the fact that buyers, after a long bear market, tend to prefer the relative security of familiar, blue-chip names. The Dow's strength has, of course, produced the potential divergence between the Dow and breadth, to which we have referred in past issues of this letter. The Dow has scored two successive rallies to new highs (along with the S & P 500 to a lesser extent) while breadth (and our Cumulative Index) have failed to confirm these highs. However, the action of breadth has been good enough so that a future confirmation could come at any time, so that we are not as yet deeply disturbed by the phenomenon.

A large part of the discrepancy, we think, can be explained away simply enough by the fact that many Dow components were deeply undervalued in relation to the market at last fall's depressed levels and have simply been correcting that undervaluation over the past few months. Indeed, a great many of those same components indicate even higher levels from a technical point of view. Thus, while the above-average Dow performance may constitute evidence of some narrowing of the advance, we do not think that narrowing is yet pronounced enough to become unduly disturbed about the general market outlook.

Dow-Jones Industrials (12:00 p.m.) 845.67
S & P Comp. (12:00 p.m.) 90.12
Cumulative Index (5/8/75) 492.99

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