TABELL'S MARKET LETTER

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The Bullwinkle - Bearfeather Dialogues
(con't.)

(For those readers who missed last week's letter, the following represents a continuation of a totally fictitious dialogue between two equally fictitious market forecasters, one a perennial optimist and the other a similarly perennial pessimist).

Bullwinkle: Okay, I'll admit it's dangerous to draw on the 1950-60 experience in looking for parallels to today's new stock market, but I still don't see how you can be bearish after a bull market that's less than six months old. There is absolutely no precedent for a bull market that short except 1938.

Bearfeather: All right, so there is a precedent, and the aftermath of that one was a 3 1/2 year bear market that went to new lows. I don't see how you can be bullish facing a bunch of second quarter reports that are going to be unmitigated disasters.

Bullwinkle: Come on now. First of all, I don't think a 25-30% earnings decline, which is what we're probably looking for on the year, is an unmitigated disaster, especially since that decline comes after Dow-Jones earnings have just set a new all-time record. Furthermore, we all know the market bottoms out well before earnings do, and a bottom last December is perfectly consistent with a bottoming of corporate profits in the second quarter of 1975.

Bearfeather: Ah ha. You're saying corporate profits are going to bottom in the second quarter. What if, in fact, they don't?

Bullwinkle: The leading indicator composite turned up sharply just this week.

Bearfeather: There are plenty of forecasters who are unimpressed by this, and who suggest that the present credit structure is overstrained and untenable.

Bullwinkle: I might believe them if they hadn't been saying the same thing for the past 25 years.

Bearfeather: Let's leave the fundamentals out of it for a moment. What about the technical picture? Can you actually see the Dow getting through the ton of overhead supply that exists between 850 and 900? It seems perfectly clear to me that this is the logical area for the market to top out and turn downward.

Bullwinkle: Look, I have enough trouble analyzing what's already on the chart without trying to guess what may be on the chart six months from now. What technical indicators are telling us right now seems clear-cut to me. There have been absolutely no signs of loss of momentum. New highs still hold a comfortable margin over new lows, longer term totals of advances still comfortably exceed declines, long-term moving averages are still rising, and, probably most important of all, the potential breadth divergence that existed a few month's ago has now disappeared and breadth is in gear with the Dow on the upside. Surely you have to be aware that we have never had a market turn down without these factors turning negative.

Bearfeather: I certainly wouldn't say "never", but in any case, I think they will turn negative very shortly. The overhead supply I'm talking about exists not only on the averages but on individual stocks. All too many stocks, including some of the institutional growth favorites, are reaching areas of heavy overhead supply.

Bullwinkle: I am not arguing that the overhead supply won't slow the market down. It undoubtedly will, but supply has been penetrated in the past and will be again. I think this market has enough momentum to do it.

Bearfeather: You are a .....

Note: The remainder of the dialogue is unsuitable for a family publication. We shall try to summarize the results of this "debate" on a more serious note next week.)

Dow-Jones Industrials (12:00 p.m.) 824.55
S & P Comp. (12:00 p.m.) 90.65
Cumulative Index (5/29/75) 501.77
AWT/jb

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL