TABELL'S MARKET LETTER

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June 20, 1975

We have noted in many recent issues of this letter that there has been, to date, no sign of the sort of deterioration of momentum which has, in the past, accompanied the termination of market upswings. We would like this week to become more specific about this statement and explore its implications insofar as investment policy is concerned.

The first task of a responsible technician at this stage is to define what, precisely, it is he ought to be looking for. This is not all that difficult a task but many, unfortunately, neglect it. At the moment we are faced by a stock market that, at its most recent highs, had advanced in excess of 40%, by definition a bull market. What we are now looking for, then, are negative indications on the part of those indicators which, historically, have turned negative prior to bull market peaks in the past. What we are not looking at are those indicators which are primarily concerned with market bottoms. Those that were relevant last fall are totally irrelevant today.

Having defined the set of indicators to which we should be paying attention, we then have to do some thinking about the nature of indicators and their interpretation. The use of any indicator as a guide to market policy involves two kinds of risk. (These are referred to by statisticians as alpha and beta risk). The first risk is the risk that the indicator will fail to turn negative at or around the time of a major market top, thus failing to give adequate advance warning of that top. The second risk is that the indicator will turn negative at a point in time when a market top is not in the offing, thus suggesting a defensive posture too early.

The ideal sort of indicator would be one in which both risks were pretty close to zero, i.e., one which turned negative at or shortly before all market peaks and which never turned negative at any time other than at a major market peak. No such indicator, to our knowledge, exists nor will one, we suspect, ever be discovered. However, there are extant numerous indicators which minimize one risk at the cost of increasing the other. There is a whole family of indicators, for example, which have an uncanny record of pinpointing market tops and bottoms with few or no false signals. There are, unfortunately, however, a number of market tops and bottoms which these indicators have failed to forecast. There is, on the other hand, another equally large family of indicators that have seldom, if ever, failed to turn negative well in advance of market peaks. They have, it is true, given many false signals, but there have been few major downswings that have not been preceded by signals from these indicators. It is this family we are interested in exploring at the moment.

Of the dozen or so indicators of this type that we follow, two of the simplest and most useful are weekly highs and lows and 25-week totals of advances and declines. No major bear market has occurred in the postwar period without having a period of weekly new lows in excess of new highs or a period in which 25-week declines exceeded advances well prior to the peak. Generally, there will be two or more such indications prior to the topping out of a market. The bull market of 1962-66, for example, saw eight separate periods prior to the peak when weekly new lows ran ahead of new highs and the market of 1966-68 saw five such periods. The 1970-73 bull market saw no fewer than ten separate instances. Likewise, in 1962-66 there occurred three instances of 25-week declines exceeding advances before the market topped out, and in 1966-68 there was one case a year before the high. 1970-73 saw three separate such instances prior to the market's topping. Similar examples, going all the way back to the 1930's can be cited for both indicators.

Where are we, then, today? At the moment weekly new highs have been exceeding new lows by a comfortable margin in every week since the advance started. The 25-week total of advances comfortably exceeds declines and, by its nature, another two to three months would be required for this indicator to turn negative even under the worst conditions. These are indicators, remember, which have given a high percentage of false signals but which have, over the past 30 years, invariably given at least one correct signal prior to the onset of major bear markets. The conclusions drawn from the fact that they remain positive at the moment should be obvious.

Dow-Jones Industrials (12:00 p.m.) 853.96
S & P Comp. (12:00 p.m.) 92.74
Cum. Index (6/19/75) 519.64
AWT/jb

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