TABELL'S MARKET LETTER

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Probably the tritest cliche in financial writing is the statement that the market is "in need of a correction". It is a cliche that we have seen pop up with dismaying regularity throughout the entire course of every bull market in our own twenty years of market experience and goes back much further, appearing in some of the oldest stock market books we have read. More than any other cliche we know, it flies directly in the face of reality, since the record amply demonstrates that bull markets tend to have almost nothing other than very shallow corrections until their most advanced stages.

The cliche was beginning to appear again last month after the market dipped from a mid-May high of 858.73 to a low of 815.00 on May 29th, and proceeded to move sideways throughout the end of May and early June. The market, it was said, was "in need of a correction" and the 800-780 level was the number most commonly bruted about. However, in a move that could hardly be surprising to anyone familiar with the internal dynamics of bull markets, the market took precisely the opposite tack and last week crashed ahead to a new high, reaching a closing high of 874.14 on Thursday. Whatever it was the market "needed", it apparently got it during the sideways trading range of May-June.

The move did have in it some elements of surprise. When it turned down from the 860 level last May, the Dow had run into its first encounter with the heavy overhead supply at 850-900, the existence of which we have been boring our readers with, ad nauseam. It is, however, historically not uncommon, especially under bull-market conditions, for overhead supply to be penetrated fairly deeply and fairly early, and the dynamics of this particular bull market were apparently strong enough to accomplish this.

On a short-term basis, a number of fairly plausible targets exist. The base formed in May-June suggests an upside objective for the Dow somewhere in the 885-890 range. Patterns on the other averages are a bit more difficult to fathom. The Utility average, in a sense, forecast the move, leading the Industrials into new high territory in late May, and joining them on the recent move to new highs. On a near-term basis, the Utilities have reached one upside objective, and some consolidation might be plausible, but, if the trend toward lower long-term interest rates continues, it is possible to read an upside objective of 114 for that index versus its current level of 86. Here the Utilities would encounter supply of the same magnitude as that now facing the Industrials. The Transportation Index, which, in the early stages of the bull market, had been leading the Industrials while the Utilities lagged, has now turned sluggish, and it is difficult at this time to formulate an upside target. The most probable course seems to be continued backing and filling in the 165-171 range.

What we are talking about here, of course, are short-term objectives, and it is perhaps worthwhile to examine the long-term picture. As our readers know, we have been advocating a fully invested posture while refusing to make any concrete forecasts as to long-range targets. We continue to think this is the prudent course to take. As we pointed out last week, the market shows no signs of loss of momentum, and the soundest policy appears to be to relax and enjoy it without worrying too much about long-term forecasts.

The current critical level as far as the Industrial Average is concerned is 900. A decisive penetration above this level would move the market through the overhead supply of 1973-74 and raise the possibility that all of the trading which has taken place since mid-1973 was part of a huge accumulation base. We would tend to be somewhat distrustful of an immediate penetration simply because, were the Dow to move through 900 immediately, it would find itself in the position of the bear in the song that went over the mountain and who promptly saw another mountain. Were the Dow to penetrate the supply at 850-900 at the moment, it would face equally massive supply between 900 and 950, this from the 1967-69 and 1972-73 tops. Thus, the most constructive technical action might, in fact, be a pullback, and, were this to take place, 800, another round figure, would become the crucial level. Were a decline to the 800 level to ensue and hold, everything that has taken place since April would begin to look suspiciously like the right shoulder of a massive head and shoulders base before which, it seems to us, the last supply barrier would ultimately have to fall. Were this sort of action to develop, and it would probably take six months or so for the pattern to complete, we could then be looking at some truly astonishing upside targets.

Dow-Jones Industrials (12:00 p.m.) 875.16
S & P Comp. (12:00 p.m.) 94.97
Cumulative Index (6/26/75) 537.33
AWT/jb

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