TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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The market technician must operate on many levels. One of these levels is, of course, the analysis and recognition of patterns in individual stocks. He must try to identify recent trading as either accumulation or distribution and attempt to formulate, from a stock's past price history, upside and downside targets and probabilities. Insofar as this task is concerned, his assessment of the current stock market picture can hardly fail to be anything other than a gloomy one. It is barely four weeks since the stock market made its last bull market high, but the amount of pattern deterioration which has taken place in that short period has, indeed, been fairly massive. The process began with the appearance of significant distribution in the first-tier growth stocks as these issues moved up underneath the heavy overhead supply from the 1973-74 tops. The malaise, however, has spread far beyond these issues, and distributional patterns now appear in a significant number of the 1500-plus issues which we follow. It should be noted at the outset that these patterns are not of the major variety, and, in the great bulk of cases, favorable long-term patterns would remain undestroyed were the short-term objectives of the distributional tops which now exist to be reached. The whole process, however, could add up to a stock market atmosphere which would be hardly pleasant.

Another level on which the technician must function, however, is as an interpreter of general market indicators. It is these indicators that we, frankly, find difficult to square with the distributional patterns which have emerged in individual stocks. As we suggested above, the Dow made its bull market high just last month. That high was accompanied by breadth confirmation and by absolutely none of the signs of deterioration we have come to associate with the long and usually slow process of forming a market top. Any downward momentum which might develop from here, therefore, would have to be placed in a category we have previously called a "surprise" decline, and the almost universal characteristic of declines of this nature is that, however painful they are while continuing, they tend to be followed by another attempt, at least, on the previous high.

Still, a third level of the technician's work is that of a market historian. If the closing level of 881.81 on July 15, 1975, is to prove to be a bull market top, this will constitute a bull market which has lasted for only 151 trading days. Such an animal is a rare beast, indeed, and is, in fact, by post-World-War-II standards unprecedented. The bull market of 1942-46 lasted 1211 trading days, the one of 1949-56, 1807 trading days and that of 1957-61, 1043 trading days. There has been some tendency toward a shortening of the time span since. 1962-66 was 913 trading days long, 1966-68, 518 trading days, and 1970-73, 665 trading days. None of these, of course, remotely approaches the 151 trading days chalked up so far.

Going back to the 1930's, we do have one possible precedent. The bull market of March-November, 1938, scored a 60% advance (slightly more than the current one) and did it in only 187 trading days. Even in that case, however, a 23% decline was followed by a renewed advance on the old high which was ultimately frustrated by the outbreak of hostilities in Europe. Although we strongly feel the market has, in many ways, radically altered its character in the past few years, it is difficult to envision as drastic an alteration as this one.

We have warned in this space in the past against the bull-bear syndrome, that is, the compulsive tendency to stick labels on every stock market era. We think this particularly dangerous in the present instance. A large number of issues, based on their technical patterns, are, at the moment, probably inappropriate as conservative investment vehicles. These issues, if still retained, should in most cases be sold. A number of others with favorable long-term patterns appear to present some fairly real short-term downside risk. The decision as to whether or not issues of this type should be retained will depend in large part on the investor's assessment of his own agility and his ability to reenter the market should the pattern again turn favorable. From a general market point of view, we think the possibility of lower prices must be recognized without the compulsion to read cosmic portents of gloom and doom. Available evidence at the moment simply does not justify this sort of attitude.

Dow-Jones Industrials (12:00 p.m.) 821.03
S & P Comp. (12:00 p.m.) 86.49
Cum. Index (8/7/75) 497.73
AWT/jb

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL