TABELL'S MARKET LETTER

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We expressed in this space two weeks ago our belief in the probability of lower prices, possibly in the 740-725 range in terms of the Dow, together with our view of what evidence the market would be required to provide if this forecast were to be revised. At least a portion of that evidence was provided in last week's trading.

We said a fortnight ago, "At any given point in time, it is helpful to have both a forecast and an idea of the sort of market action it would take to cause revision of that forecast .... The .... forecast would probably have to be revised bullishly were the market to demonstrate, for a second time, ability to find demand at the 790 level, which effectively halted the downswing last month. Further basing out at that level could make a broader rally in the fall a stronger possibility". The market has, indeed, in the past few days, provided impressive evidence of demand at the 790 level. After attaining a closing low of 795.13 on September 16, the Dow posted a 4-point rally last Wednesday and followed that up on Thursday and Friday a week ago with two 15-point gains back-to-back, attaining a closing peak of 829.79. A fairly sharp decline followed on Monday, but a great deal of this ground was recovered in Wednesday's trading. What we are now waiting for is for the market to drop the other shoe.

The Dow has been contained in, roughly, the 790-840 range long enough now for that range to have some significance. Were the average, having now held twice at the 800 level, to break out sharply above 840, that rally being confirmed by decent breadth and volume, one would have to suspect that, at the very least, a reasonably good intermediate-term advance might be in the offing. Exact upside objectives will remain unclear until the base is ultimately complete, but we would suspect that the minimum upside target would be another attack on the highs of early last summer. We are not, at the moment, prepared to offer this view of the market as a forecast --- there is no point in anticipating an upside breakout that has not yet taken place --- but it certainly at this stage must be recognized as a rather real possibility.

Looking ahead a bit further, another attack on the old high would provide still another interesting test. Even while voicing a suspicion over the past few months that prices might move lower, we have continued to suggest that the decline would qualify as nothing more than an intermediate-term downswing. Our reasoning behind this line of thought was the fact that the major signs of deterioration, which had in the past signaled major tops, were not yet present. One such sign of deterioration is a breadth divergence which had not, of course, occurred at the July high, breadth having led the Dow into new high territory.

The following table shows the breadth divergence action at each of the past four major tops followed by the most recent action of our own weekly breadth index. As the table shows, in three of the four cases the divergence was provided by the Dow first posting a high, subsequently moving noticeably lower, and then posting a new high, with the breadth index failing to go to a new high. This was the case in May, 1961-February, 1962, May, 1965-January, 1966, and March, 1972-December, 1972. The action in December, 1968-May, 1969, was a bit different. Breadth moved to a new high along with the Dow in December, 1968, but the breadth decline in the first two months of 1969 was one of the most vicious on record, and breadth rallied hardly at all in the rally of February-May. Such action was clear enough to sound a distinct warning signal.

FIRST HIGH			SUBSEQUENT LOW				NEXT HIGH		
Date	DJII	Breadth	Date	DJII	Breadth	Pts. Decline	Date	DJII	Breadth
May 1961	714	563	Oct 1961	688	548	15	Feb 1962	740	558
May 1965	944	595	Jul 1965	832	557	38	Jan 1966	1000	593
Dec 1968	995	582	Feb 1969	876	528	54	May 1969	972	533
Mar 1972	984	477	Oct 1972	938	440	37	Dec 1972	1065	462
Jul 1975	888	376	Sep 1975	785	353	23			

In the present instance, an attack by the Dow on its old high could set up the potential for the same kind of breadth divergence that characterized three of the four previous tops. The 1968-69 action is unlikely to be duplicated since the decline in breadth so far has been relatively mild, but, were the Dow to move above its July high with breadth failing to recover the 23 points it has given up on the decline, a divergence situation would be created.

Still, on the other hand, were any advance from these levels to new peaks on the Dow to be confirmed by a breadth index, we would have exactly the opposite situation, and a worthwhile extension of the rally could be foreseen. Since we have previously noted that we would regard an upside penetration of 900 as being highly significant, the action of breadth will be the subject of an intense scrutiny if the market continues to move ahead in the next few weeks.

Dow-Jones Industrials (12:00 p.m.) 820.17
S & P Comp. (12:00 p.m.) 86.11
Cumulative Index (9/25/75) 478.47
AWT/jb

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