

TABELL'S MARKET LETTER

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MEMBER AMERICAN STOCK EXCHANGE

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What with the travail of New York City and other publicized ills, it is unsurprising that a certain amount of pessimism should be present in financial markets. That pessimism is, however, expressing itself in concrete terms in a number of areas; one of these areas being short interest on the New York Stock Exchange, which reached an all-time record level at well over 26 million shares last May and, after subsequently backing off, has recently returned to just under the 25-million-share level. This sharp rise was little noted last summer, since, at that time, trading volume was heavy, and most analysts tend to view short interest in terms of its ratio to average daily volume, the classic "short-interest ratio", which is designed to provide a measure of how many days' trading it would take theoretically to cover the existing short position. With trading volume dropping off sharply and the short interest remaining high, however, this ratio moved above the 1.8 level as of September 15 (figures are recorded from the 15th of the month to the 15th of the month) before dropping off slightly in October.

The table below presents all past occasions since January, 1946, when the short-interest ratio has moved to a level of 1.8 or above. Also shown are the Dow on that date, the Dow approximately six months (125 trading days) later and the percentage change for the period.

Date	Short Int Ratio	DJIA	DJIA 6 mos. later	% Chg.	Date	Short Int Ratio	DJIA	DJIA 6 mos. later	% Chg.
Jun 1947	1.800	175.49	180.76	3.00	Mar 1958	2.214	453.04	518.52	14.45
Sep 1947	2.006	175.30	167.86	-4.24	Apr 1958	2.179	447.58	541.95	21.08
Mar 1948	1.804	167.62	182.52	8.89	May 1958	2.047	457.86	560.92	22.51
Mar 1949	1.931	176.02	179.24	1.83	Jun 1958	1.901	474.77	565.53	19.12
Apr 1949	1.837	176.62	182.67	3.43	Jul 1958	2.299	278.82	591.64	23.56
May 1949	2.177	175.20	192.96	10.14	Sep 1958	2.002	521.02	612.69	17.59
Jun 1949	1.854	164.58	193.63	17.65	Oct 1962	1.985	589.69	710.92	20.56
Jul 1949	2.405	173.48	199.39	14.94	Aug 1966	2.030	834.85	853.34	2.21
Aug 1949	1.933	178.97	199.62	11.54	Oct 1966	2.173	771.71	866.59	12.29
Sep 1949	2.310	182.16	203.47	11.70	Nov 1966	2.211	815.31	885.80	8.65
Oct 1949	1.913	186.36	207.78	11.49	Sep 1967	2.044	933.48	840.09	-10.00
Nov 1949	1.867	187.98	215.05	14.40	Nov 1967	2.032	855.18	898.98	5.12
Mar 1950	1.927	207.46	218.10	5.13	Feb 1968	1.868	839.23	900.36	7.28
Apr 1951	2.084	256.18	274.34	7.09	Mar 1968	2.205	837.55	956.68	14.22
Dec 1951	2.144	265.48	260.10	-2.03	Sep 1968	1.913	917.21	927.30	1.10
Jan 1952	1.982	270.46	268.03	-0.90	Sep 1969	1.889	830.45	772.11	-7.03
Mar 1952	1.909	264.43	273.84	3.56	Jul 1970	1.895	711.66	844.19	18.62
Jul 1953	1.854	268.75	286.72	6.69	Aug 1970	2.075	710.84	885.34	24.55
Oct 1953	1.942	271.22	311.78	14.95	Apr 1974	1.851	843.79	648.08	-23.19
					Sep 1975	1.882	803.19	---	---

As is quite clearly shown, the current level of short interest has some historical significance. It has occurred only 39 times in 358 months, and on 33 of those 39 occasions, the market was higher six months later. In the entire record there are only three serious "false signals" on the part of the indicator, all of them, interestingly enough, occurring fairly recently. One was in September, 1967, when the indicator flashed just as the market was going into an intermediate-term decline within the context of the 1966-68 bull market. The other two instances, September, 1969, and April, 1974, occurred when the indicator flashed the end of a bear market but led that bear market's end by some six to nine months. For the remaining periods the results shown in the table speak for themselves. It will be interesting to see whether the present instance is another example of the recently-more-frequent false signals or whether it turns out to be truly a harbinger of higher prices.

Dow-Jones Industrials (12:00 p.m.) 833.67
S & P Comp. (12:00 p.m.) 88.86
Cumulative Index (10/30/75) 489.53
AWT/jb

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NOTE: The figures in the table differ slightly from those reported in BARRON'S and other publications where average daily volume is based on settlement dates. The figures above are computed on trade dates.

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