

TABELL'S MARKET LETTER

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Something is happening; that is for certain. Certainly the euphoria of the first three months of 1976 when the stock market, it seemed to the casual observer, did almost nothing but go up, has been totally dissipated. At Thursday's close of 977.09, the Dow-Jones Industrial Average had declined 3.2% from its March high of 1009.31, the sharpest correction it had undergone since the almost 200-point move from the December low of 818.80. Previously the steepest drop had been a 2.87% decline over two trading days in the middle part of March. Prior to this week's drop, the market had posted its first significant rally attempt which failed to make a new high, the advance from March 30 through April 5 peaking out at 1004.09, a level some five points below the March peak. If something is, indeed, happening, the problem is to assess its seriousness and to determine appropriate investment action. Stock market action has been noted by many observers often to resemble the shape of a parabola, with the steepest rises coming at the beginning of bull markets, these rises slowly losing momentum and finally ceasing to make new peaks as the market turns down --- at first slowly, and then accelerating to the maximum rate of decline at the downswing's end. The arc-like nature of the action of the Dow since early last December is apparent to anyone who cares to look at a daily chart. The picture clearly presented is that of an advance moving ahead at a decelerating rate. The question, of course, is whether the top of the parabola has as yet been reached.

Date	DJIA	% Chg.	No. Days	Avg. % Chg Per Day	Breadth Index
12/5/75	818.80	-	-	-	779.7
2/4/76	976.22	19.23	41	.46	820.4
2/25/76	994.57	1.88	14	.13	826.4
3/11/76	1003.31	0.88	11	.08	823.7
3/24/76	1009.31	0.60	9	.07	822.5
4/5/76	1004.09	-0.52	8	-.06	822.2

Statistically, the market's loss of momentum can be documented by the table above which shows each of the successive minor peaks in the Dow since the advance began in December. As can be clearly seen, on each minor rally the average rate of advance per day has slowed and even, on the last rally, turned negative as the advance failed to attain a new high. The table also shows the action of our daily breadth index, which introduces another disturbing factor into the equation. As can be seen, the high in breadth was reached six weeks ago back in February, and two successive rallies, one in early March and the other in late March, both of which produced new highs on the Dow, failed to move the breadth index to new peaks. This is the sort of potential divergence that has signaled bear markets in the past, and its record is of sufficient accuracy that it bears watching. Two factors, however, must be pointed out. Such divergences have lasted a good deal longer than six weeks on prior occasions before they were finally destroyed by new highs being attained in the breadth index. It should also be noted that breadth, at its current level of 817.4, has declined very little from its February peak, so that a market reversal at this stage could very easily carry it to new highs.

There are, moreover, numerous arguments which mitigate against a substantial decline at this time. One is the simple one that the short space of three months is an awfully short time for a major market cycle to have run its course. Another is the fact that few distributional patterns have appeared in individual stocks, and, in those cases where minor tops have formed, downside objectives are, in many instances, already being approached. This is particularly true of many of the basic-industry stocks, which had been leaders of the advance, and were probably, at recent peaks, over-extended on a short-term basis.

It is obvious, we think, that clouds are appearing on the horizon and that they should be watched carefully. Clouds in the past, however, have been known to dissipate without producing rain, and we suspect that the investor can afford to await more evidence before bolting for the storm cellar.

Dow-Jones Industrials (12:00 p.m.) 978.27
S & P Comp. (12:00 p.m.) 101.18
Cumulative Index (4/8/76) 601.12

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