TABELL'S MARKET LETTER

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We have attempted in recent issues of this letter to emphasize two concurrent themes. We have tried to point, first of all, to some of the signs of loss of momentum in the stock market and to suggest that developments in this area would continue to bear watching. We have also tried to suggest, on the other hand, that excessive bearishness at this stage of the game prior to the emergence of further negative evidence might turn out to be somewhat premature.

The second part of this reasoning was vindicated, at least temporarily, by the market action of last week, as the Dow moved ahead to a new cycle closing high of 1011.02 on Wednesday, although the intra-day peak of 1017.71, achieved on Thursday before profit-taking set in on Thursday afternoon and Friday morning, just failed to match the March 24 intra-day high of 1018.03. The Industrials' high was confirmed by new closing and intra-day peaks in the Transportation Average. Thus, by the only objective standard, the 1974-76 bull market remains, at least as of midweek, in effect.

This should be hardly surprising to those who have studied market history. A correction of intermediate-term proportions after an upswing is barely three months old is an event almost without historical precedent. Furthermore, as we have suggested in the past, the most logical upside target on the Dow centered on the 1030-1080 range, and, while the lower part of that range has been approached, the upper part has yet to be attained. Thus, further strength, although probably on the same sort of irregular basis that has prevailed since mid-February, appears a reasonably likely prospect.

What the market strength has unfortunately not done to date is dispel a number of clouds which have begun to appear on the horizon since the market's rise began decelerating at the end of February. One of these clouds, which we discussed at some length in our letter of two weeks ago, has been the disappointing action of breadth indices, most of which reached their peak back in February and have failed to move to new high territory since despite a series of three successive new highs on the Dow. As technical analysis has grown in popularity, the use of breadth has received increasing recognition, and indices based on advance-decline statistics now appear in many publications and are watched by a great number of investors. We do not feel that this increased popularity decreases the value of breadth observations one iota. The fact that breadth is lagging the Dow is a simple indication that fewer stocks are advancing and this is a warning that should not be taken lightly.

A number of factors, however, should be pointed out. The first is that there have been often lags of as much as six months, where breadth has turned down before reversing itself and moving on to new peaks. A perfect and recent example is the mild consolidation which characterized the second half of 1975. At that time our own breadth index dropped off from a July high of 807 to a low in mid-September of 777, a drop of some 30 points. Nonetheless, when the market finally turned at the end of 1975, by mid-January, 1976, breadth had moved up and achieved a new high.

What should further be underscored is that the decline in breadth in 1976 so far has been relatively mild. In 1975, as noted above, the breadth index moved down by some 30 points from high to low. The decline in 1976 to date took the index from 827 in February to 815 a week ago, a total drop of only 12 points. Some five of those points have since been recovered so that a seven-point rise would erase the potential divergence which exists. Such a rise could easily be produced by five or six strong trading days and, were this to occur, the divergence which has been worrying us and others over the past month would instantly evaporate, and the likelihood of further prolongation of the upswing, from a time point of view at least, would be greatly increased.

It is not our intention with all of this to encourage wide-eyed optimism. The potential breadth divergence does still exist and, as we suggested last week, distributional patterns are beginning to appear. However, almost uniformly, they are of a minor nature and are appearing in only a small number of stocks. The emergence of such patterns at the mature stage of a bull market is not an uncommon phenomenon and, absent further evidence of weakness, should be of little concern other than to holders of the stocks involved, who may want to act on them based on their own investment objectives and trading philosophy. Evidence on the general market that has appeared so far, however, consists more of potential cause for future worry rather than incentive to immediate action.

Dow-Jones Industrials (12:00 p.m.) 1003.38
S & P Comp. (12:00 p.m.) 102.63
Cumulative Index (4/22/76) 605.75

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