TABELL'S MARKET LETTER

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We stated in our letter of April 30 that "time is slowly beginning to run out for the market insofar as upside action is concerned. Periods of trading within a restricted range such as the one that has existed since late February do not, historically, last all that long, and, if the current trading range is not to be ultimately viewed as a period of distribution, it will have to be penetrated with some decisiveness on the upside before too much more time has elapsed". Thursday may come to be known as the day when time finally ran out. The pentration of the 1010-970 trading range took place --- but on the downside rather than the upside,with the 965 level being reached intra-day before a modest rally at the close. This downside breakout, coupled with the desultory breadth action which has characterized the market since late March, strongly suggests, at least in the conventional wisdom, a correctionary phase. Downside objectives center around the 910-860 range in terms of the Dow-Jones Industrials and around 91 for the S & P 500 stock composite. Both these objectives coincide with strong support levels.

As we said above, these conclusions are the obvious ones in terms of conventional wisdom. However, a few additional factors must be noted.

The first of these is the possibility of false breakout. Breakouts from trading ranges more often than not foreshadow the direction of the next move. If they invariably did so, however, technical work would be a perfect forecaster, and we, certainly, have never asserted this claim. False breakouts most often occur when the existence of a trading area is widely known and widely observed and this is, we think, the case in the present instance. Thus, the possibility, at least, exists that the market, having moved down a bit, may sharply reverse itself and return to the trading range.

This leads us to the other method in which the market might surprise the conventional wisdom, i.e., by going down further than the technical pattern indicates. We confess we consider this eventuality as highly unlikely. The sort of distribution that would foreshadow a major decline simply does not exist in individual stock patterns at the moment, and the 860-850 level in the Dow-Jones Industrial Average provides massive support which should be sufficient to halt any decline.

This leads us to a discussion of context. If a decline were to ensue from this point, we think it would have to be viewed as an intermediate-term decline within an ongoing upward cycle. Indeed, a decline to the support levels mentioned above would put the market in a much healthier technical position than it is in at the moment and could be the base for a new upward leg which would carry to new highs. This, in turn, might have considerable long-range significance,as it would break the Dow decisively out of the thirteen-year trading range which we have referred to so often, presenting important long-range cyclical connotations.

The final point to be made is the generality that, by and large, individual stock patterns do not look anywhere nearly as bad as do the patterns on the averages or general market indicators. A few stocks have minor tops, to be sure, but they are definitely minor in scope,and a vast horde of issues show little suggestion of any great downside vulnerability.

All of which leads us to the basic question as to whether investment policy should be altered in the light of existing technical circumstances, i.e., should equities be sold here in the hope of repurchase at lower prices later on. For the agile trader who is willing quickly to reverse his policy should conditions change, such action might be appropriate. For the longer range investor, however, we think that the better policy would be to ride out the storm.

Dow-Jones Industrials (12:00 p.m.) 967.99
S & P Comp. (12:00 p.m.) 99.66
Cumulative Index (5/27/76) 583.85
AWT/jb

ANTHONY W. TABELL
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