

TABELL'S MARKET LETTER

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We have, over the past few weeks, spent more issues of this letter than we would have cared to playing variations on the theme of the Dow repeatedly stalling around the 1000 level. Since, at this writing, the phenomenon appears still to be in effect, we decided to examine the narrow trading range of the past few months in the light of the historical record.

In order to accomplish this, it is first necessary to quantify the nature of the doldrums in which the current stock market finds itself becalmed. The lowest price at which the Dow-Jones Industrial Average has recently sold is 958.09, a level achieved twice, first on the seventh of June and, secondly, on June 9. The highest recent price, and the peak for the entire bull market, has been 1011.02, a figure achieved on April 21. This represents a range from low to high of 5.34%. Having established these parameters, we can scan backward into market history and find the last date this year on which the Dow sold above 958.09 and never subsequently sold below it. That date happens to be February 18, 95 trading days ago as of today. The Dow has, in other words, spent 95 consecutive days locked in a 52.93 point range.

It then becomes an easy matter (easy, at least, if one has access to a computerized data bank) to go back and look for similar periods in the past. The criteria we decided to use in searching for such periods were that the Dow should have spent a period of 90 trading days or longer locked within a trading range of 6% or less from low to high. As it turned out, going back to 1926, there have been 18 such periods prior to the present one. The current period, 95 days within a 5.34% range, is hardly record-setting either as to narrowness or longevity. There was a 90-day period in 1965, for example, when the Dow held within a range of under 4%, and the longest period the Dow spent confined within a 6% range comprised the 161 trading days ending on May 11, 1940. Were that experience to be duplicated, incidentally, the Dow could spend from now until October 6 without making either a substantive new high or new low.

A common thread which seems to run between narrow trading ranges such as the present one is the fact that the market which leads into them appears to be much more often an upward market, such as is the case in the present instance, than a downward market. 16 of the 19 occurrences on record have, in fact, occurred following up markets. Of the three exceptions, two constituted reversal phenomena. The trading range ended May, 1940, followed a downswing and led into an essentially upward market, and the major bull cycle of 1949-68 was preceded by a 105-day trading range of just under 6%. The only instance of a long trading range interrupting a continuing down market took place in 1947-48.

We are, thus, left with 15 instances, prior to the present one, where a narrow trading range followed an upward trend. The most striking fact about these 15 instances is that 11 of them constituted interruptions in a continuing upward move and only four constituted reversals. There seems, in other words, a pronounced tendency for narrow channels such as the present one to turn out to be consolidations, rather than distributional tops forecasting a reversal of the major trend.

There have, of course, been the four exceptions. The 1966 bear market was preceded by a 94-day, 5.96% trading range. Likewise, the 10% correction of May-June, 1965, the 13% correction of the first nine months of 1953, and the terminal phase of the 1938-42 bear market were all foreshadowed by protracted narrow trading ranges. However; the 1942-46 bull market contained no fewer than three interruptions as narrow as and longer than the current one, the bull market of 1949-53 contained two, and the upswing of 1962-66 no fewer than four. Although we certainly intend to continue to look for evidence that the present case is an exception, the historical odds, at least, favor the present trading range being a precursor to higher prices rather than lower.

Dow-Jones Industrials (12:00 p.m.) 995.33
S & P Composite (12:00 p.m.) 103.68
Cumulative Index (7/1/76) 609.10
AWT/jb

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