TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

April 1, 1977

Quite often, the best technique for thinking rationally about the stock market is to back off from it and become less concerned with its day-to-day vagaries. What leads us to this comment at this time is the fact that two weeks ago we found ourselves far removed from the market's short-term action, having spent the previous few days on the side of a Vermont mountain. There, the only ups and downs with which we found ourself concerned centered around the mechanical device which took us up said mountain and the quality of the snow which brought us back down. The ups and downs of the stock market were, by and large, out of our mind.

It was probably just as well. Had we been here staring at the tape a fortnight ago, we might have felt compelled to comment on the fact that the Dow-Jones Industrial Average had just risen sharply above the trading range in which it had been contained through February and early March. We might have commented further on the fact that an apparent successful test of the lows around the mid-920's had taken place and that the market had rallied nicely from that test. Rereading of the financial press indeed suggests that many commentators at the time were compelled to this sort of euphoria. It was a euphoria that was shortly shattered as the market, having made its new peak, spent ten of the next eleven trading sessions sinking like a stone, in the process reaching new 1977 lows for the popular averages, penetrating, in the process, the bottoms of last November. We have thus concluded a two-week period in which the analyst who restricted himself to simple-minded chart reading, found it necessary to shift from mild optimism to the depths of despair. This sort of schizophrenia is somewhat less than conducive to rational portfolio management.

The first question that needs to be asked centers on whether it might not be advisable to ignore the recent weakness, much as it was obviously advisable to ignore the strength of two weeks before. The second is, assuming that the weakness is, indeed, telling us something, what is it indicating as far as portfolio planning is concerned. The answer to both questions requires a preface reiterating our comments of the past half-year concerning the various widely-followed market averages.

There is no doubt that, if one looks at the major indices, the outlook is somewhat less than favorable. A decisive follow-through to last week's decline would leave the market with little in terms of projected support this side of the base from which it took off some 15 months ago. That base, in terms of the Dow-Jones Industrials, is in the low 800's, and comparable downside targets can be read for other widely-followed indices such as the S&P 500. Yet, as we have been trying to suggest since last summer, these indices have, of late, been telling us precious little about the true state of the market.

Our Cumulative Index, for example, which we believe to be adequate proxy for the action of all New York Stock Exchange issues, now stands around 646. It is difficult at the moment to project a downside target of much worse than 620, a level which can hardly be considered disastrous While the DJIA and the S&P 500 have just completed the classic signs of a bear market inception --- they moved below their respective 200-day moving averages in mid-February and returned precisely to touch those averages on the recent rally before turning down again --- the Cumulative Index finds *itself in a precisely opposite position.* It remains sharply above its own 200-day moving average, and that average is still rising at an appreciable rate. The same is true, for what it is worth, of the Amex Market Value Index.

What we are saying, in other words, is that we are more inclined than we might otherwise be to be skeptical of the pattern of the widely-followed indicators. That a further follow-through to the decline would suggest fairly serious market weakness is, we are afraid, an inescapable conclusion. A basic concern, however, should be on the effect of that weakness on a well-structured portfolio. Based on the action of the bulk of listed issues, we are unable to envision that effect as being more than temporary.

The dual point that we are trying to make is that the action of the averages may be misleadingly bearish and that, even assuming that it is not, that many issues are likely to outperform the averages on the downside even as they have been outperforming them on the upside for the past nine months. We think it is safe to continue to base portfolio strategy on individual stock patterns as they develop rather than on the current ominous action of the popular indicators.

Dow-Jones Industrials (12:00 p.m.)	924.29
S & P Composite (12:00 p.m.)	98.87
Cumulative Index (3/31/77)	624.31

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

AWT/jb