TABELL'S MARKET LETTER

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The stock market continues its somewhat schizophrenic behavior.

We commented in this space two weeks ago about the market's strange action following the rally which took the Dow to the mid-970's at the end of March. The aftermath of this rally, at a time when it might have been logical to expect continued strength, was a sickening plunge in late March and early April to new 15-month lows. In the process a large number of widely-followed indicators (although not all of them) moved out of year-long trading ranges on the downside. Conventionally, this might have foreshadowed accelerated weakness. Instead, the market chose, this week, to move up --- sharply, on reasonably good breadth and with increasing volume.

It is, perhaps, as good a time as any to bring up the subject of breakouts from trading ranges. The word is a familiar one in technical jargon, and readers will be familiar with its use in this letter. The concept of a trading-range breakout is a perfectly valid one from an analytical point of view. It can be justified on the rather simple premise that, if an object is going to move from point A to point B, it must pass various points in between along the way. Thus, if a stock is going to move, for example, from 50 to 100, it must, at some point, pass, say, 60. The burden of technical work is to determine whether 60 in this case is more or less significant than 56 3/4 or 69 7/8. It is, in our experience, possible to determine such significance only imperfectly. This does not, of course, suggest that the attempt should not be made.

The simple-minded follower of breakouts, however, has had a hard time of it lately. On September 22, the Dow reached a new high for 1976 at 1026.26, in the process breaking out of a trading range which had contained it since February. That high lasted for precisely two days, following which the average sank to a new low at 917.89 on November 10. That low was immediately followed by a move to a January 3rd intraday peak of 1007.81. The aftermath of that new high, interrupted by the late March rally, was a new low at 909.74, a couple of weeks ago. *This downside breakout led in turn to this week's rise.*

The whole picture becomes even more confused when we start looking at averages other than the Dow. In the case of a large number of indices, the early January peak, for example, was well above the one made in September. As noted above, some, but not all, of the other market indicators followed the Dow into new low territory early this month. The situation has approached the point where, whatever one's personal predilection, bullish, bearish or neutral, he has little difficulty digging up some average which will support his view.

In such an environment, as we have been trying to suggest since the first of the year, it seems folly to pay too much attention to the averages or to become too terribly concerned about "breakouts" by a few points in one direction or another. The market has, for almost a year now, been subject to all manner of cross-currents with patterns developing in widely divergent directions for individual stocks. This whole picture has been further complicated by the fact that stocks not in the popular indices (or little represented in those indices) have acted demonstrably better than the more widely-followed, larger companies. By and large, however, the bulk of individual stock patterns, especially when viewed on a long-range basis, appear relatively attractive.

That there has been some deterioration in the overall picture in the past six months is a fact which cannot be denied. The problem for the technician is in gauging the seriousness of that deterioration. When compared, for example, with the sort of massive technical weakness that manifested itself in the late 1960's or in 1972-73, the technical damage appears miniscule. The current investor acceptance of a declining market as a normal phenomenon, something we referred to last week, argues further against excessive pessimism.

On the other hand, we would not want to become bemused by this week's rally. By itself it has, we think, only minor significance. Eventually, along with all the other false starts which have characterized the past six months, it will become part of a pattern which will lend itself to analysis. While we await that eventuality, there are, in our view, a large number of attractive havens in equity markets for investment funds.

Dow-Jones Industrials (12:00 p.m.)	949.46
S & P Composite (12:00 p.m.)	101.15
Cumulative Index (4/14/77)	659.23

AWT/jb

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