TABELL'S MARKET LETTER

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We tried to suggest last week the pointlessness of following the popular averages too closely in today's market environment and to convey the impression that the ominous pattern of some of these averages might tend to lead to an unduly pessimistic attitude toward the stock market. We concluded by saying that, regardless of the action of the averages, "there are, in our view, a large number of attractive havens in equity markets for investment funds". We would like, this week, to become a bit more specific and discuss the technical outlook for a number of general investment areas.

An appropriate starting place is, perhaps, basic-industry issues comprising such industrial groups as steels, papers, chemicals and non-ferrous materials. This letter has commented favorably in the past on the very-long-term technical action of these groups, and, on this basis, their patterns remain unchanged. The stocks assumed market leadership in the latter part of 1972 when they broke decisively out of long accumulation areas. Their leadership continued through 1973 and 1974 when they declined by a relatively modest amount in a severe bear market, and they then led the bull-market advance through February of this year. Since that time, they have been in a minor-decline phase dropping off slightly more than have the averages and, by and large, failing to participate in rally attempts. For the most part, the decline from the peaks of early last year has brought these issues back to strong support levels, and some attempts at secondary base formations have been made. No immediate move is indicated, but downside risk from these levels appears relatively small.

Readers will be familiar with our long-held skepticism regarding the institutional growth favorites. These issues moved sharply lower during the 1973-74 bear market and, after rallying, have, in general, been declining for the past two years with the result that many of them are close to lows made back in 1974, when the Dow was under 600. Quite obviously, the unconscionable premiums that were being paid for these issues four years ago have now almost totally eroded, but technical action, on a group basis, remains abysmal, and, in the case of a number of issues at least, the risk, even from current levels, appears substantial. There is, as yet, no technical evidence that the long process of disillusionment with these issues has run its course.

By contrast, a number of issues in the secondary growth area possess reasonably attractive technical patterns. Many of these stocks, being smaller and more unseasoned, have had their earnings growth patterns interrupted at some stage during the past few years, and the percentage corrections in the stocks were substantial. However, these corrections appeared to be, by and large, completed by the end of 1974, and many of the stocks have moved sideways while earnings have recovered or the growth pattern has continued. While these issues are, in many instances, in the speculative category, they deserve, given this proviso, investment consideration.

Transportation stocks constitute still another category that is worthy of mention. The Dow-Jones Transportation Average confounded Dow theorists by moving to a new high this week while the Industrials have stubbornly failed to follow through over the past six months. Since action of the airlines has been desultory, this strength has stemmed largely from the above average market performance of the rails. We do not believe this to be a transitory phenomenon. Large numbers of rail issues, especially those associated with the hauling of coal, have broken out of substantial long-term accumulation patterns and suggest considerably higher levels. This pattern is confirmed by that of the Dow Transportation Average itself. This index has a long-range upside target of around 350 versus current levels under 240.

Financial issues, while in general presenting above-average long-term patterns, show mixed short-term action. Insurance issues, for example, retain their good long-term patterns but have been showing poor shorter-term relative strength and may remain under some market pressure for the immediate future. Many bank issues, by contrast, subpar performers during the recent rise, have begun to show recent technical improvement. The same is true of consumer finance stocks. The best-acting group technically has been the savings and loan companies which have maintained market leadership almost throughout the entire bull-market rise.

Energy issues are recent market leaders having generally moved ahead throughout 1976-77 during which time the popular averages were moving irregularly lower. Some short-term consolidation has recently taken place, but we do not view this as major deterioration, and we would expect above-average action on the part of these issues to resume before too long.

Dow-Jones Industrials (12:00 p.m.)	930.55
S & P Composite (12:00 p.m.)	99.02
Cumulative Index (4/21/77)	657.96

AWT/jb

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