

# TABELL'S MARKET LETTER

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Readers of this letter by now are familiar with our view of the current dull stock market environment. The market continues to experience an erosion which to date has corrected the Dow approximately 11% from its September, 1976 high of 1014.79. In spite of the Dow-Jones Industrial Average recently penetrating the 900 level reaching a closing low of 898.66 on Monday, it is difficult for us to recognize this weakness as a precursor to a major bear market phase. Confirmed watchers of the Dow-Jones Industrial Average will immediately take issue with the above statement as clearly a downside breakout from an important top formation has occurred. In the past, occasional reference has been made to Murphy's Law which states, "If anything can go wrong, it will." More recently, attention has been directed to O'Toole's Law which, simply stated, says, "Murphy was an optimist." Where could the "Dow Watcher" go wrong? It is often maintained, as this letter has recently discussed, that the popular market averages because of a limited number of issues and weighting factors have been giving a distorted picture of the stock market's true picture.

The Cumulative Index, we feel, clearly underscores this. Started on May 1, 1964, this Index shows the average day-to-day percentage price change for all issues traded on the New York Stock Exchange. It, basically, is computed by adding the daily percentage change of all stocks and dividing by the number of issues traded. We compute our Index by cumulating these percentage changes. In order to make the Index compatible to the DJIA, we used the DJIA April 30, 1964 close of 810.77 as a base. The Index, we feel, gives a reasonable proxy of the performance of the average New York Stock Exchange issue. Documenting the action of the Cumulative Index in relation to the DJIA can be a more valuable tool in formulating a forecast than merely relying on the DJIA.

Utilizing a 20% filter on the Cumulative Index, the table below gives the value of the Cumulative Index at major market turning points since its inception, and the corresponding level of the Dow for the same date, together with percentage changes between each point.

Date		Cumulative Index	% Change	# Days This Swing	Dow-Jones Industrials	% Change
April 30, 1964		810.77	0.00	0	810.77	0
February, 1966	High	1095.03	+35.06	452	995.15	+22.7
October, 1966	Low	803.42	-26.63	164	744.32	-25.2
December, 1968	High	1455.59	+81.17	524	985.21	+32.4
July, 1970	Low	681.40	-53.19	390	669.39	-32.1
April, 1971	High	1060.13	+55.58	205	950.82	+42.0
November, 1971	Low	827.06	-21.99	146	797.97	-16.1
March, 1972	High	1044.70	+26.32	74	950.18	+12.1
December, 1974	Low	345.61	-66.92	703	577.60	-39.2
May, 1977	High	669.84	+93.81	735	943.44	+63.3
June 1, 1977	Low	649.37	- 3.06	9	906.55	- 3.9

A number of observations are apparent. It is interesting to note the number of trading days in each of the last two major swings. From the 1972 high to the 1974 low, a total of 703 days were observed, while the subsequent rally from the 1974 low to the recent May, 1977 high took 735 days. Hectic wide swings in relatively short periods of time reminiscent of the late sixties-early seventies has given way to more orderly, albeit more lethargic, markets, not unlike recent months.

If you accept the premise that the Cumulative Index is a proxy for the performance of the average NYSE issue, we find that in every case the Dow understates the extent of this performance. For example, the Cumulative Index in the short period of six years from its 1968 high of 1455.59 to its 1974 low of 345.61 has lost an incredible 76.26%. In other words, we have seen a market which has seen the average stock lose three-fourths of its value over a six-year period. The DJIA from its December, 1968 high of 985.21 corrected to 577.60 in December, 1974, a correction of 41.37% or approximately one-half that of the Cumulative Index. In addition, from as recently as the March, 1972 high of 1044.70 on the Cumulative Index to its 1974 low of 345.62, a decline of 66.92% was registered. What the Cumulative Index seems to be saying is the speculative excesses of the late sixties has, in fact, been dramatically corrected. This excess has not been properly reflected in the DJIA. Conversely, the same is true in up swings. Since the October, 1966 low of 803.42 to the 1968 high of 1455.59, an advance of 81.17% was registered in the Cumulative Index versus an increase of 32.4% in the Dow. More recently, the Cumulative Index, since the December, 1974 low of 345.61, advanced significantly to the May, 1977 high of 669.84 resulting in a gain of 93.81%. The DJIA for the same period has appreciated 63.3% from its December, 1974 low of 577.60 to a recent high in May, 1977 of 943.44.

Dow-Jones Industrials (12:00 p.m.) 909.01

ROBERT J. SIMPKINS, JR.

S & P Composite (12:00 p.m.) 97.09

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Cumulative Index (6/2/77) 649.51

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