TABELL'S MARKET LETTER

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This letter has reiterated at various times in the past the rather simple axiom that stocks are moving objects. This is an assertion that should surprise no one, especially following the market of the past few weeks, when the movement has been all too apparent and its direction quite clearly down. It is necessary, however, periodically to remind oneself of this truism since the techniques involved in analyzing stationary and moving objects are, in fact, quite different. A stationary object can be viewed simply in terms of its location at a given point in time, i.e., its level. A moving object has to be thought of not only in terms of its level but also in terms of direction. We have often used the analogy of two airplanes at identical altitudes, one in a tail-spin and the other in a controlled, powered climb. Despite their identical levels, one's attitudes toward being a passenger on the respective planes should be quite different.

If one considers nothing more than the level of the current stock market, it is very difficult to become concerned. It is, indeed, even arguable that current equity prices are, on an historical basis, highly attractive. This is certainly the view espoused by large numbers of corporate managements who have, in the recent past, been willing to make bids to take over entire companies at prices significantly above the levels at which the stock market was valuing them. The same sort of judgment is reinforced by looking at stock prices in relation to current earning power and dividends. When this sort of measure is employed, it becomes apparent that the market is now priced not too far from those levels which characterized the bottom in 1974, a period we know in retrospect to have been a unique historical opportunity.

It is when we start looking at direction that we begin to have difficulty with the current climate for equity prices. It certainly does not require sophisticated technical analysis to recognize the fact that the current direction of prices is downward and has been so since the first of the year. It has, moreover, been downward with a persistence and lack of variability which is relatively rare in stock market downswings. In addition, there is reasonably abundant evidence that the weakness, which was confined to a relatively narrow segment of the list at the beginning of the year, has, in recent weeks, been spreading to broad numbers of stocks. The number of new lows being attained on a daily basis attests to this quite vividly.

In the face of this sort of evidence, it is obviously rather hard to react with wild ecstasy to the current level of stock prices, however attractive that level may be on the basis of historical comparison. Nonetheless, that attractive level remains a fact of stock-market life and will probably remain so for some time. Its existence as a fact should, if we are rational, make us all the more enthusiastic over any visible evidence that downside momentum is waning or reversing.

To this end, we presented last week a rather detailed analysis attempting to assess whether recent action had, in fact, been symptomatic of a market turn. We were forced to come to the regretful conclusion that such was not the case. It must, however, be admitted that this sort of conclusion is one that can legitimately be reversed at any moment. It would, in other words, be fairly easy for the market, in a very short time, to produce the kind of performance which would suggest the advisability of a highly aggressive stance toward equities.

There remains insufficient space here to document in detail the sort of evidence which the stock market would have to provide, although we may have the opportunity to comment on this sort of thing in future issues. Basically what is needed, however, is more volume and more fluctuation. Until last week, at least, volume had been holding around levels which had characterized it all the way through the decline. An historical symptom of market bottoms, by contrast, is sharply expanded volume, both on the downside and subsequently on the upside. Likewise, fairly violent fluctuations in both directions tend to be characteristic of bottoms. The warning flag provided by a few days of truly severe market decline followed by a distinct and broad rebound would, similarly, constitute bullish evidence. These signs may manifest themselves at any moment and, were they to do so, would call for a sharp reversal of attitude as regards immediate stock-price prospects. Until such action takes place, however, consideration of the direction of the stock market must take precedence over recognition of its admittedly attractive level.

Dow-Jones Industrials (12:00 p.m.)	806.31
S & P Composite (12:00 p.m.)	91.16
Cumulative Index (11/3/77)	627.93

AWT/jb

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