

TABELL'S MARKET LETTER

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We assume that only a small minority of our readers spent the last fortnight on a desert island. We will, therefore refrain from wasting space recapitulating what the stock market did last week. A few comments on various aspects thereof, however, might be worthwhile.

Volume --- A trend reversal with the level of activity seen last week is always an impressive phenomenon. Last week's volume was demonstrably so. There were, after last week's action, those voices which were stoutly echoing the refrain, "rally in a bear market." As far as volume statistics are concerned, it just won't wash. It is our practice to measure volume historically as a percentage of recent activity, and, on that basis, the upside volume seen last week was of the magnitude normally associated with major reversals. To give an appreciation of this magnitude, it is only necessary to note that the only day in the past 30 years on which relative volume substantially exceeded that of last Friday and Monday was the day of the reversal rally in May, 1962.

Breadth --- On the other hand, the number of stocks advancing during the rally phase was undeniably disappointing. True reversal rallies are generally accompanied by an extreme overbought condition in breadth terms. Such a condition may yet occur. It has not occurred to date.

The Prelude --- Another characteristic which kept last week from "looking" like a bottom was that which went before. Bear market bottoms in the past have been preceded by conditions of panic selling. The past two weeks were preceded by torpor. It is somehow hard to envision a volume climax suddenly emerging from the lackadaisical atmosphere of March, 1978.

A Rationale? --- It is, it seems to us, possible to explain the latter two disappointing aspects concurrently. Admittedly, an insufficient number of stocks advanced on the rally. Yet, we must remember that, prior to last week's action, large numbers of stocks were, unlike the averages, advancing rather than declining. It seems unrealistic to expect that segment of the market which has never been in a bear phase to exhibit normal climactic action on a reversal. Weak breadth and the lack of an oversold condition suggest that it has not, indeed, done so. On the other hand, the area which has incontrovertibly been in a bear market, the high-capitalization, high-quality stocks in the averages, exhibited last week copious signs of reversal action -- price washouts followed by upside reversal on record volume.

A Change In Leadership? --- Last week was notably a phenomenon of the last becoming the first -- the quality laggards leading the upside parade while secondary issues languished. Could this signify a renaissance for high-grade stocks? It could, perhaps, but we think the verdict is premature. Leadership by secondaries, a phenomenon which has characterized the market for a year and a half, will not be permanently reversed by one week's action, however dynamic that action may be. It is perhaps worthy of note that our Cumulative Index of all NYSE issues scored a three-and-one-half-year bull-market high last Monday.

New Lows --- If we are to accept last week's action as a reversal phenomenon, does this acceptance indicate that the lows for the averages have already been seen? Not necessarily. The double-bottom phenomenon on a major reversal is a not-uncommon one. Indeed, stock market history is rife with examples of the averages moving to new lows after volume reversals, viz., May-June, 1962, August-October, 1966, and (in the Dow at least) October-December, 1974. Indeed, almost invariably, in the case of true reversals, there has existed a subsequent test following the initial rally which involved approaching new lows if not actually achieving them.

- We think, in sum, that last week's action can hardly be said to be without significance. Attempts simply to pass it off as just another interruption in the past 16 months' dreary fall are not, it seems to us, consistent with the historical record.

Dow-Jones Industrials (12:00 p.m.)	814.19
S & P Composite (12:00 p.m.)	94.43
Cumulative Index (4/21/78)	662.17

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