TABELL'S MARKET LETTER

Delafield, Harvey, Tabell
909 STATE ROAD, PRINCETON, NEW JERSEY 08540
DIVISION OF
Janney Montgomery Scott Inc.
MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

May 19, 1978

It is probably not amiss, since this is a technical market letter, to begin a discussion of the recent market excitement by defining once more the proper subject matter for technical analysis. Technical analysis is, to put it quite simply, the study of past stock-price data. Visualize, if you will, the continuous stream of reported transactions flowing each day across the consolidated ticker. It is the sum of these transactions, taken as individual items of information, that constitute the sole raw material for the technical process.

The task of the technician is to manipulate this material. It may be reorganized, separated, collated, charted, graphed, averaged, smoothed, compared, added, subtracted, multiplied and divided in infinite permutations and combinations of ways. Technical analysis, however, remains defined by its input, which is stock price action.

Which leads us, of course, to a definition of what technical analysis is not. It is not the analysis of Gross National Product, business cycles, inflation, recession, money supply, or interest rates. A technician may consider these items, and, since they are quantitative in nature and quantitative work is indeed his stock in trade, he may use them, from time to time, in comparison with stock-price series. Such analysis, however, remains, in the purest sense, extrinsic to technical work.

None of the above is meant to suggest that these various non-technical inputs are not a proper subject of study or that that study is not useful in the investment decision-making process. The portfolio manager would hardly be doing his job were he not to consider variables of this sort and to utilize appropriate conclusions derived from that consideration in the course of his work. The point is, though, that these inputs are separate from technical analysis, not a part of it.

We raise this subject at the moment simply because we are increasingly aware of some skepticism regarding the recent rally in the stock market. A good deal of that skepticism is, as far as we can gather, based on conclusions drawn from some of the factors mentioned above. As noted, we do not intend to belittle the value of these conclusions and, if they suggest pessimism at the moment, so be it. However, it should be made perfectly clear that the story being told by technical analysis is, at the moment, being writ plain. It is that the market is going up and, moreover, is likely to continue doing so.

Now this rather clear indication may be at variance with conclusions drawn from other facets of portfolio strategy work, and we cannot help it. If, however, technical analysis has any validity and, after 25 years of practicing it, we think it does, it should perhaps stimulate the investment decision-maker to reexamine some of those conclusions. For what a study of the market is clearly telling us is that the negatives of interest rates, money supply and inflation are not so much an indicator of what the market is likely to do as an explanation of why it was down almost 300 points in the 18 months ended last February. The market is either telling us that, or it is telling us that the current conventional wisdom regarding recession, inflation and interest rates, is, quite simply, mistaken.

It has always been our view that economic-monetary analysis was valuable in stock market terms, but we have always felt it limited in the sense that investor reaction to these factors was a variable rather than a constant. We have long held, in summary, that the only way to get at the elusive variable of investor confidence was to observe the action of the investor in the marketplace via the simply-defined sort of technical analysis referred to above. It is the technician's job, in other words, to gauge the health of the equity market. The conclusion which must be drawn regarding that health at the moment is simple. It could not be better, thank you.

Dow-Jones Industrials (12:00 p.m.)	851.61	ANTHONY W. TABELL
S&P Composite (12:00 p.m.)	98.52	DELAFIELD, HARVEY, TABELL
Cumulative Index (5/18/78)	743.23	

AWT:jt