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

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Since the latter part of March, this letter has been attempting to comment on various aspects of improving market action as they have become evident in day-to-day activity. We noted on March 23 that the short-term downtrend channel started in November had been penetrated, suggested on April 7 that the continuing upside leadership by secondary stocks remained unabated, and noted on April 14 that the possibility of a bottom of some importance occuring in the spring of 1978 was not incompatible with our interpretation of long-term cycle theory. With the upside "gap" on record volume of mid-April, improving market action became far too obvious to simply ignore. We have tried to suggest, since that time, the fact that the rally which began on April 14 seemed to be of more than passing importance and that the evidence seemed to suggest that it was far more than a simple interruption in an ongoing bear market. It is perhaps worth while at this stage to attempt to become a bit more specific regarding our perception of the current probabilities for stock market action.

We have already in past letters, we hope, taken note of the most salient fact, that evidence suggests to us that we currently have on our hands something a good deal more significant than a bear-market rally. If such were the case, appropriate investment policy would have been the maintenance of cash reserves, ignoring the market strength, or indeed, utilizing that strength to build reserves which had not previously existed. Since we believe that the action of the past month in fact possesses intermediate-to-longer-term upside significance, we have counseled against this sort of policy and suggested that an aggressive attitude toward equities be maintained. This we continue to do.

As far as upside targets are concerned, we think the data relevant to a forecast can be found in the action of the Dow since early November of last year. From that time to the end of 1977, the average held in, roughly, the 800-845 range. Early 1978 saw a sharp drop to a February 28 low below 750 and a subsequent trading range in the 750-780 area. The late-April rally penetrated that range on the upside and was followed by trading in early May at the 820-840 level. That range was, in turn, penetrated on the upside prior to the retreat of the past few days.

If the six months of trading action discussed above is to be viewed as a base, a view which we now consider logical, an upside target in the 940-970 range appears plausible. This area is, of course, an all-too-logical stopping place, constituting, as it does, the level at which the Dow traded throughout most of 1976 and, more importantly, the ceiling around the 1,000 level which has placed an effective damper on upside action for more than a decade. A similar upside target for the Dow Transportation Index would be around 250, approximately equal to its mid-1977 high. In terms of our Cumulative Index, the most logical projection appears to be 920, a level coinciding with the overhead supply from its 1971-73 top. This is a move of approximately 25%, more than we are able to foresee for the Dow, thus suggesting continued leadership on the part of the broad range of NYSE issues versus those contained in the averages.

Attempting to time a move of this nature is of course hazardous at best, but it seems to us that two rough scenarios are possible. The first scenario would be an ongoing upside move with little in the way of interim correction, certainly none much greater than the modest downswing of the past few days. We confess we are inclined toward this view on the basis of the rather unique circumstances surrounding the current stock market scene. Insufficient attention, it seems to us, is being paid to one of the most basic of all stock market commandments, i.e., "Don't fight the tape." The stock market has a way of embarrassing those who engage in such an unequal contest, and this embarrassment would be accomplished by continuation of the rally for another 100 points or so without much interruption.

As we suggested a month ago, however, an alternate scenario is possible and, indeed, solely in historical terms, is perhaps more likely. Past volume reversals (and we think the last two weeks of April fall into this category) have often been followed by a test, on lower volume, of the previous lows. Were such a test to occur, the long-range implications might become even more bullish, since it would have the effect of broadening the base pattern. As far as this possibility is concerned the key level to watch on the Dow would be 820. Downside penetration of this figure would suggest the possibility of something more than very-short-term weakness.

In summary, although the exact shape of the pattern may be unclear, we think the evidence favors the upside with continued leadership by secondary stocks, and we would advise portfolio managers to adjust in order to take advantage of this prospect.

Dow-Jones Industrials (12:00 p.m.)	831 51
S&P Composite (12:00 p.m.)	96.58
Cumulative Index (5/25/78)	733 93

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ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL