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

June 2, 1978

We tried in our letter of last week to suggest that our own reading of the available evidence suggested a positive outlook for stock prices, at least for the intermediate term, and that an agressive attitude toward equity investment appeared to be warranted. We suggested, as we have been doing for some months now, that we thought the low in the Dow which occured on February 28 (or, at worst, some future "double-bottom" low which would be associated with it) would turn out, on an historical basis, to be of more than passing significance. We are perfectly aware that we are not supported in this view by large numbers of our colleagues, a great many of whom are focusing on the current behavior of interest rates as being inconsistent with a stock market bottom, and, of course, only time will tell for certain whether our own reading of the current technical portents is a correct one.

In a way, however, both we and those forecasters who are looking for lower prices are guilty of the same sin, for undo emphasis on the present rally fails to focus on the larger and more important question. That question is whether the bottom of the recent bear market -- whether it was achieved on February 28 or will be achieved on some future date -- presages a move of sufficient magnitude to end the super-cyclical stock price behavior which began in the middle 1960's. That environment, as we have been pointing out in this space for some eight years now, has involved a trading range which, on the Dow, has centered on 800-900 with occasional excursions to the vicinity of 1,000 on the upside and equally occasional bear-market bottoms around the 600-700 level. Within that environment, we have seen three major bear markets, three major bull markets, and possibly a fourth one now underway. The major question is not really the direction of the next 100 or even 200 points on the Dow, but the imminence of the end of this more-than-decade-old phenomenon.

Our own current working forecast, which calls for a possible move to the 940-970 range, is admittedly of no help in answering the question, since such a move would fit roughly into the context of the sort of environment we have discussed. From a purely technical point of view, we think, more evidence would be needed before it would be appropriate to forecast a move above the 1,000 level, and, consequently, significantly higher prices rather than simply higher prices. Nonetheless, we think a few background facts are worthy of note.

The first such fact is an extremely simple one. Common stocks are cheap. Every time we utter that sentence we feel vulnerable to charges of naivete and lack of sophistication. We fortify ourselves against this criticism by recalling the naive and unsophisticated little boy in the fable The Emperor's New Clothes. The woods are full of sophisticates who can tell us, often at great length, why stocks should be cheap. There were, of course, equally convenient explanations readily available in 1949, the last time stocks were selling at approximately current levels and, we suppose, equally facile explanations just prior to World War I, the previous comparable cyclical low. A major low is, almost by definition, a period when all the bad news is known. Indeed, bearish developments continue to emerge well after important lows are made and the market begins to ignore those developments and move ahead anyway (Any resemblance in this description to the action of the past two months is intended.).

A new super-cyclical environment for stocks would, it seems to us, require the emergence of new sources of demand for equities and it seems logical to suggest that such a new source of demand might be found in the renaissance of the individual investor. The past two decades have seen net sales of stock on the part of individuals while the market came to be more and more dominated by institutional intermediaries, and there seems to be some evidence that this era may be coming to a close. The securities industry as a whole seems to be gearing itself toward an aggressive wooing of the individual investor by a relatively small group of powerful and sophisticated organizations. Meanwhile, the WALL STREET JOURNAL noted this week that institutions both bank trust departments and mutual funds, were net sellers of equities during the first quarter of 1978. This, of course, was the quarter during which the Dow was bottoming prior to a 100-point upward move.

The big question, then concerns not the next bull market but the next market era, and the evidence is by no means complete. It will be our firm intention, however, to comment upon it as it becomes available in the future.

NOTE: The writer plans to be absent over the next six weeks on an extended vacation. During that absence, our colleague, Mr. Robert J. Simpkins, Jr., will be preparing the remarks which appear in this space each week.

Dow-Jones Industrials (12:00 p.m.)	842.95	ANTHONY W. TABELL
S&P Composite (12:00 p.m.)	97.60	DELAFIELD, HARVEY, TABELL
Cumulative Index (6/1/78)	737.83	