

TABELL'S MARKET LETTER

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MEMBER AMERICAN STOCK EXCHANGE

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~~We will say it again -- we believe the recent bear market made its low on February 28th at~~
742.12 on the Dow Jones Industrial Average. To review once again, the Dow Jones Industrial Average has advanced from that low to a high of 866.51 on June 6th, a rise of 16.76% over a period of 68 trading days. It must be mentioned in the post-World-War-II era, there has never been a bear market rally achieving a magnitude of 16.76%. History has shown us the stock market offers exceptions to everything. However, we feel the action of the stock market since the February low is of meaningful significance and not a so-called bear market rally.

Let us look at this 124.39 point advance of the Dow Jones Industrial Average. Since the February low, we feel the stock market climate has changed. This week we conducted an investigation to see whether this change has extended to the American Stock Exchange and the Over-The-Counter market. We find, as a general conclusion, it has. In fact, the strength in the Dow Jones Industrial Average has underperformed the American Stock Exchange and Over-The-Counter averages. Breadth indices, reflecting the above average performance of a broad range of stocks, were also positive for the New York Stock Exchange, American Stock Exchange and Over-The-Counter markets.

The table on the opposite page shows some relevant market statistics daily from the February 28th low to the June 6th high (+16.76%) and subsequent correction to the July 5th low (-7.01%). The first column shows the Dow Jones Industrial Average; the second, the American Stock Exchange Market Value Index; and the third, the ratio of the latter to the former. Obviously, when the ratio is rising, it means the Amex index is outperforming the Dow and vice versa. The next two columns list the Over-The-Counter Composite Index and its ratio to the Dow. The last three columns are breadth indices for the New York Stock Exchange, the American Stock Exchange, and the Over-The-Counter market starting from an identical base of 1,000. The breadth figure is computed by cumulating daily advances minus declines divided by unchanged issues traded. The highs for the various averages and breadth indices are indicated by an asterick on the opposite page.

Inspecting the data reveals some interesting facts. The American Stock Exchange(+22.38%) and Over-The-Counter (+23.33%) averages outperformed the Dow during the market advance under study, as shown by their increasing ratios to the Dow from February 28th to June 6th. This indicates, we feel, the continued strength in secondary and tertiary stocks. As readers of this letter are aware, this strength was apparent to us before the Dow Jones Industrial Average reached its low in February. Also, it is worth noting that the American Stock Exchange and the Over-The-Counter markets continued to outperform the Dow Jones Industrial Average during the short-term decline from June 6th to July 5th. To date, neither average has corrected itself five percent.

During the market rise from the February low, New York Stock Exchange breadth posted new highs reflecting broad participation in the market. Breadth on the American Stock Exchange and Over-The-Counter market also increased during this period but at a slightly slower rate. As the table shows, we can see a series of successive highs on the Dow Jones Industrial Average, American Stock Exchange, and Over-The-Counter accompanied by new highs on the three respective breadth indices. This behavior continued until June 8th when some interesting changes start to take place. New York Stock Exchange breadth reached a high two days after the high reached in the Dow Jones Industrial Average. Since then, during the short-term decline, New York Stock Exchange breadth has, together with the Dow Jones Industrial Average, declined noticeably, reflecting an oversold condition which was discussed last week. What is interesting, however, is the strength of the American Stock Exchange and Over-The-Counter averages and breadth. For example, throughout the minor correction since the June 6th high American Stock Exchange breadth continued to post new highs.

Having inspected this 17.76% increase in the Dow since February 28th followed by the 7.01% correction from the June 6th high, what benchmarks have been established? Clearly, the ability of the Dow to penetrate its recent high of 866.51 accompanied by breadth posting a high above the June 8th figure of 1022.96 would reconfirm the advance and be viewed as constructive. If this happens, the American Stock Exchange and the Over-The-Counter markets which have recently performed relatively better than the Dow, would appear to be positioned to also reach new highs. The ability of these various averages to reach new highs coupled with the non-confirmation of new highs in their respective breadth indices would signal a change in leadership and loss of momentum to the heretofore strong secondary and tertiary stocks.

Dow-Jones Industrials (12.00 p.m.) 828.92
S & P Composite (12:00 p.m.) 96.78
Cumulative Index (6/22/78) 728.86

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