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

July 21, 1978

A few impressions. They will be impressions only, since ticker tapes and WALL STREET JOURNALS are in scarce supply in East Africa, where we have spent the bulk of the past six weeks. Our feelings about the stock market over that period, therefore, come solely from a couple of days of poring over charts. This is a new experience. We are accustomed to watching the market unfold from day to day more or less like a moving picture. Our present feeling is gained solely from looking at a single frame, and it is very hard to say just how accurate this perspective will be. It is necessary, nonetheless, to make the attempt.

Vacations have a number of salutary effects. In the present instance, one of these effects is a lesson in humility. Had anyone attempted to pin us down in early June as to where the market would be on our return, we would, quite honestly, have mentioned a figure 100 points or so higher. Three days after we left, the Dow reached an intra-day peak of 879.33 on June 6th, and immediately proceeded to head due southeast. Since then, a reasonably vigorous recovery has brought the average to about the same level it was on our departure, but the pattern is, to say the least, not the one we expected to find on our return. What, if anything, went wrong?

Not really all that much. The market's apparent state at the end of May was that the downtrend from the highs of seventeen months before had been decisively broken and that base formations, in many cases had broadened to impressive proportions. With the rally from last spring's lows, large numbers of issues seemed poised to break out of these base formations, and these issues appeared to exist in sufficient numbers to offer the possibility of immediately higher prices. With early June's loss of momentum, the breakouts, of course, never took place, and the bulk of issues seem to have moved back into the price patterns which had characterized their action earlier this year. The rosy prospects of six weeks ago now appear, at least, to have been postponed.

The word, "postponed," is used advisedly, however. We do not see anything that has happened in the past month and a half to alter our original basic assessment. The penetration of last year's downtrend is now all the more firmly established, and we think it remains highly probable that the market has entered upon a new phase replacing the dreary atmosphere of early 1977-1978. It is the probable shape of that new phase which has been altered by the market's failure to follow through over the past few weeks.

What now seems to be the most likely action is further broadening and extension of the base formation. As mentioned above, the market declined throughout the better part of June, and, since then, over the past two weeks, has rallied to a point just under the early-June highs. The question of whether the rally will carry through or, indeed, whether the mid-June low will be able to hold, seems to us, given the market's loss of momentum, a debatable one. However, we must confess that we don't think it really makes much difference. We see nothing in the picture to alter the assessment made in May that the current market phase consists essentially of a basing process which will be the ultimate precursor of higher prices.

The discussion above has, of course, been couched in terms of the averages and is less applicable to the secondary and tertiary stocks which, as our colleague Robert Simpkins demonstrated last week, have continued in their own private bull market. This is one facet of the market's action that has remained unchanged over the past six weeks and we must confess that technical work at the moment shows no apparent prospect of its diminution. We have continued with a vengence in the direction of what FORTUNE magazine called this month the "one-tier market," a market in which the price disparity between primary and secondary stocks has narrowed to a degree unprecidented in recent years. It is interesting to note, however, that, after a year and a half of this process, secondary issues do not appear overexploited on either a technical or fundamental basis. Like all stock market processes, this one will eventually unwind itself, but we do not think that unwinding will take the form of a sharp decline in secondary issues. It should rather, eventually, involve the higher grade issues developing a more normal premium while secondary stocks continue to move ahead. This process should, in turn, produce the sort of higher levels for the major averages which the current base formation process would tend to suggest are ultimately probable.

Dow-Jones Industrials (12:00 p.m.)	837.75	ANTHONY W. TABELL
S & P Composite (12:00 p.m.)	97.99	DELAFIELD, HARVEY, TABELL
Cumulative Index (7/20/78)	742.55	