TECHNICAL COMMENT

OUTLOOK March 22, 1967

Near- term: Bullish
Intermediate-term: Bullish
Long-term: Bullish

I think that the market has entered a phase of consolidation and correction, but still feel that this phase will not be severe enough to justify bearishness on even a near-term basis. While blue chips have begun to perform better, I believe that the glamour area of the market will continue to show superior performance until 1) the major uptrend line in the senior glamour average is broken and 2) the market passes its speculative activity peak.

I. The glamour average (180.28) continues in its orderly upchannel from the October lows. The uptrend line is now 172½, while the top of the channel is 191-192. In a previous comment, I listed the reasons why I thought that this average would hold in the 174-175 area ~~for various reasons~~ (uptrend line, support, 50% retracement of rally), and I still think that these reasons are valid. I do not think the glamour average is in any danger until the major uptrend line is violated.

II. The Dow Jones Industrials shot out of its trading range last week, but has now reached the top of its channel, which is now in the 877-885 area. I think that a reaction from this area is quite normal, even if the DJI should later penetrate the top of its channel and accellerate its rate of gain. Support is now indicated in the 850-860 area. The Standard & Poor's Composite average is still acting better than the Dow.

III. Merrill Lynch figures turned less bullish following the proposal to restore the 7% investment tax credit:

a) Margin accounts have reached a rate of buying equal to that of previous minor peaks.
b) Cash accounts are still heavy sellers, although they are now swinging slowly toward the buy side.
c) Institutional activity is now about even on balance; this usually occurs at minor peaks.
d) Short selling on balance continues at a moderate pace; it is less than a week or so ago, but normally shows light covering at minor tops.

One of the prime areas of technical strength in recent weeks has been the tendency of these sets of figures to swing rapidly to the favorable side on reactions. Since these figures are now in a less favorable position, they should again begin to move to bullish positions before the current correction is completed.

IV. Odd lot figures are also somewhat less constructive than in recent weeks. The ten day buy-sell ratio has been moving slightly towards the buy side for over a week, which is unfavorable, although the daily ratios have been moving back to the heavy selling area recently. The ten day ratio should begin moving back to the sell side as well to turn favorable. Odd-lot short selling has diminished to the lowest levels of the year, and has not increased significantly on recent reactions, which is also unfavorable.

(continued)

V. Breadth figures were poor last Wednesday and Thursday for the first time this year. However, they turned neutral Friday and Monday, and a favorable disparity occurred yesterday, so no bearish disparities have built up.

VI. Speculative activity remains above normal but below previous major peak levels. Some speculative stocks have turned, and a few have broken down from tops (Silicon Transistor, Tool Research), which is a sign of cracks appearing in the speculative structure of the market, but overall activity remains at about the same levels as in recent weeks.

Walt Deemer

March 29, 1968

Technical Comment

Outlook

Near-term: Bearish
Long-term: Bearish

The present minor recovery move, in my opinion, is no stronger -- and perhaps is weaker -- than the previous two moves within the last four weeks. Accordingly, I do not believe that it will carry significantly above present levels. As explained below the long-term indicators are still some distance from becoming favorable at this time.

Almost all long-term technical indicators are still unfavorable; furthermore, most will require at least several months to turn bullish.

1. The short interest ratio rose to 2.17 last month, which is very favorable. However, since the ratio was 1.96 last September, and was therefore favorable at the top of the market's rally from the 1966 lows, I think that it must be discounted somewhat at present.

2. Mutual fund cash positions jumped to 8.2% last month, an increase of 1.9% from the previous month. This indicator is now quite bullish. Its all-time peak was 9.7% in October 1966.

3. Margin debt has dropped only $200 million or so during the present decline; it normally drops $500 million or more by the end of a major decline.

4. Low-priced stock averages drop a minimum of 28% during a major decline; so far they are down only half that amount.

5. The Federal Reserve is tightening money severely at present; usually they begin to ease money before a major bottom. This is also why the bond market normally turns up before the stock market.

6. The market has not yet reached an oversold condition of major importance. (as measured by the 25 week oscillator).

7. The Amex/NYSE volume ratio has declined to 35%, but reaches the 20-25% area at major bottoms.

8. Volume, according to Stan Berge's long term analysis, should fall to 6-7 million shares/day for at least a month to become bullish.

9. Year-to-year changes in both NYSE volume and the DJI have not yet dropped to a bullish position, and probably can not until September.

Other indicators continue to be mixed on balance:

1. Merrill Lynch trading figures have improved a little: especially during the last few days:

a) Margin accounts (speculators) are now neutral after several weeks of buying: however, they are normally heavy sellers at a significant bottom.

b) Institutions are gradually reducing their buying from the heavy pace of a few weeks ago.

c) Cash accounts (public) are also gradually reducing their buying.

d) Finally, short selling has begun to increase again during the past few days, although it is still well below the levels seen at significant bottoms.

2. The odd-lot buy-sell ratio has been swinging towards the sell side during the past few days, which is normal action. Odd lot short selling has remained fairly heavy.

3. Lowry's figures indicate very little strength during the present minor rally: during the last four days both Buying Power and Selling Pressure have dropped one point.

4. Net borrowed reserves rose again last weekto $410 million from $327 million, which continues the sharp swing toward credit restraint during the last two months. This suggests to me that the Fed is now putting the screws on tight, and that reprecussions cannot help but be felt in the bond and stock markets.

5. Interest rate-related indexes are still mixed: utility stocks and the Dow-Jones 40 bond average have dropped to their late 1967 lows; U.S. Government bonds are holding after a sharp rally from their lows, and income rail bonds are still consolidating after breaking out of a base. This indexes should be the first to reflect the current Federal Reserve moves.

6. The London Financial Times average broke through into new all-time high ground this week.

7. M.A. Shapiro's bank stock average has now pulled back to its important upside breakout point, and is thus on strong support now.

8. The ten-day NYSE advance-decline oscillator has still failed to rise above +450, which indicates a complete lack of any significant upside momentum on even a minor basis.

9. The difference between 25 week advances and declines is now 3700, which is still well below the 8400 level of October 1966.

10. The average price of the 10 most active NYSE stocks is still about $45; this is only slightly favorable.

11. Our glamour stock averages rallied back to their March 18th highs this week. At the same time our conglomerate average was able to get only halfway back, and this sector of the market continues very weak technically.

Walt Deemer

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