'TECHNICAL' GAIN

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No Basic Reason Is Seen by Analysts for the Rally

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The stock market scored the biggest one-day gain in the history of the Dow-Jones industrial average yesterday for what Wall Street analysts call "technical" reasons. This means it happened for no fundamental reasons at all.

The market had been falling relentlessly, week after week, amid increasing pessimism about the outlook for the economy, the American commitment in Cambodia, the strife in the Middle East and the unrest on the nation's campuses. All the news was just plain bad.

Yesterday, there was nothing to change any of the fundamentals. The same negative factors could have continued to weigh on the market. But they did not. After plunging more than 40 points in the week's first two sessions, the Dow industrials soared 32.04 points yesterday.

'Extremely Oversold'

"There's no question that it was technical," said Newton Zinder of E. F. Hutton & Co. "It certainly was a market that was extremely oversold. The gloom and doom was all over. But when the early morning rally held, it was a good sign."

Rarely in history has the market fallen so steadily as it had in recent months. Such declines normally are interrupted by rallies for a variety of reasons. There had been no really successful rallies in this decline. When a rally materialized yesterday morning, it looked like another attempt that would fail. Since it looked that way, speculators were said to be shorting into it, or selling borrowed stock on the theory they could buy it back later at lower prices and net the difference.

When share prices continued to move up, however, they realized this was not going to be another rally that failed. This meant their expected short-swing profits had turned into losses. To minimize the losses, they had to buy stock. This buying sent the market even higher.

Meeting With Nixon

"It was not all technical," said Allan N. Brenits, a partner in Herzfeld & Stern. "It was partly hopes of what the President might say tonight. People were groping at things."

This was a reference to Wall Street rumors that President Nixon might disclose a major foreign policy change or perhaps a change in domestic economic policy at last night's meeting with financial and business leaders. "It would be a disaster if nothing happened," said one man who was invited. The purpose of the meeting, after all, was to reassure Wall Street and, in the process, attempt to bolster the spirits of investors in general.

Such rumors normally are incapable of causing more than a mild change in the market. But yesterday they were heaped on the other technical factors,

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such as short covering and the market's generally oversold state. They added fuel to the fire.

Meanwhile, many mutual funds with heavy losses had been sitting on the sidelines with cash, waiting for a change in the investing climate. Some of the more speculative of these funds were said to have begun moving in yesterday, hoping to catch the next bull phase right at the start.

"That kind of buying probably didn't come in until late in the afternoon," said one analyst. "Anybody who would have gone into this thing with other people's money had to be crazy. So what if you miss a few points? If it carries through tomorrow, that'll be meaningful."

Howard Stein, president of the Dreyfus Fund, one of the largest, said the fund had begun buying "about a week ago." He added, "We are continuing in the hope that the Administration will continue to decrease our war economy and switch to a people's economy." But he stressed that the Dreyfus cash was being committed slowly and not because of yesterday's rally.

Maurice H. Stans, the Secretary of Commerce, told a meeting of the American Management Association in New York that the "prophets of gloom and doom will look silly in 12 months." But this looked like just another effort by an Administration spokesman to prop up the market.

The consensus among many analysts appeared to be that the market was sold out, that all the selling was over — at least for now — and so the effect of the buying was magnified. The short covering and the rumors were perfectly timed, resulting in an extraordinary surge in prices.