TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

5 VAUGHN DRIVE, CN 5209, PRINCETON, NEW JERSEY 08543-5209

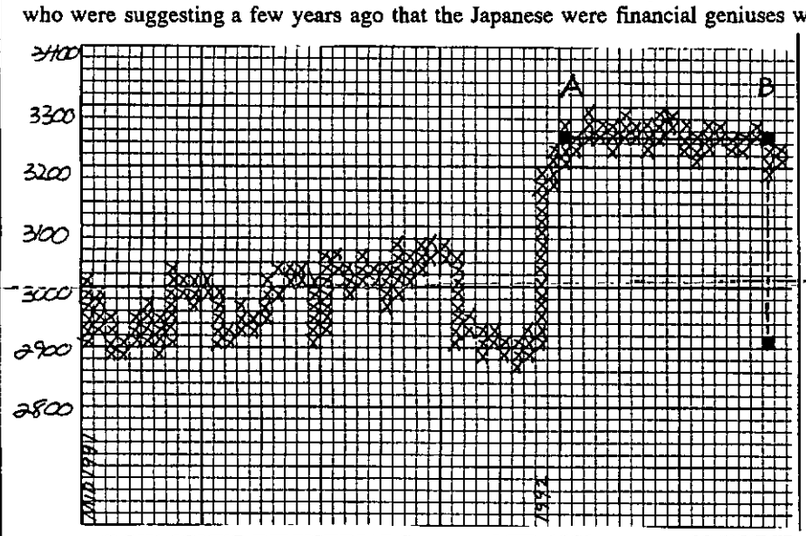
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

April 10, 1992

We published in this space three weeks ago two charts. The first of these was a short-term (10-point-unit), point-&-figure chart of the Dow which, we suggested, had broken out of what appeared to be a minor top. The strength of that week (the Average was in the mid-3200's) constituted, we thought, a move into overhead supply and was, therefore, likely to dissipate. The second chart in that letter was one of the Nikkei Index, and we noted that the Japanese indicator's move below 20,000---at which level it had already been cut almost in half---was, to say the least, ominous.

This week, of course, Japan hit the front pages. By Thursday, the Nikkei was at 16,500---down 18.5% over just 13 trading days before a sharp Friday rally retraced part of the loss. The Japanese market is admittedly volatile, but this was one of the deepest plunges in its history. The U.S. market encountered a few equally steep drops in the 1930's. The only one remotely comparable in recent years would be, of course, the DJIA's fall of 34% in 11 days in October, 1987.

As far as Tokyo is concerned, we have little highly original to say. Technical analysis is now a widely-practiced discipline, and many of our colleagues have noted the depressed volume on the fall so far, suggesting that large sellers are not being accommodated and the unlikelihood of a near-term bottom. On the fundamental side, experts are divided on the potential impact of an ongoing Japanese collapse on U.S. stock prices and, indeed, the outlook for the Japanese economy. Some of these experts are, of course, the same ones who were suggesting a few years ago that the Japanese were financial geniuses who could commit no economic wrong.



DOW JONES INDUSTRIALS MID 1991 20 POINT

In any case, let us reexamine the technical position of the U.S. market, this time with a 20-point unit chart as shown at left. It depicts the almost-straight-line advance in which the Dow, which was well under 2900 in early December, was, by the second trading day of 1992, above 3200. (The S & P 500, on that date, was less than a point away from its all-time high, which would be scored two weeks later.) For all of 1992 so far, really, the market has moved sideways, or, in the case of the S & P, sideways with a slight downward bias. This week's Japan-inspired weakness decisively penetrated that sideways trading range on the downside.

There is a very simple conventional interpretation of this pattern---that it is a top which should be measured across the line A-B, yielding a downside objective of 2900. There are, of course, a couple of additional points which need to be made. First, the breakout could be false---see mid-December 1991 for an example of such an occurrence. Second, an alternative reading is possible. If one accepts our original interpretation of three weeks ago, that the top was complete at that time, and the subsequent upside action was merely a failed move into overhead supply, then the downside target is more conservative---approximately 3040. In either case, we think that yesterday's and this mornings probe back into the mid-3200's is likely to be turned back by the overhead supply as was the one which preceded it.

Technical analysis is, in part, the study of trading ranges, and the reason we show a bit of history on the chart above is to show part of the long trading range which contained the market for almost all of the last three quarters of last year. Again, to review the action, the Dow moved up from a pre-Desert-Storm low under 2500 in early January reaching above 3000 by early April. It subsequently made four downside probes at 2900-2860 before rebounding each time. For the record, some 39.4 billion shares traded between the time the Dow first moved through 2860 in mid-February 1991 and the attainment of a new high on the day after Christmas. The tenets of technical work hold this to be support---an area of demand. Similar areas of support, from approximately the same time-period, exist for most of the other major averages, around 1250-1150 for the Dow Transports (1348) and at 390-375 for the S & P Composite (404).

We expect this support to hold. The tops for the averages count into it, not below it. These readings seem to be confirmed by the patterns for individual stocks. For the most part the potential tops do not seem, at the moment, to be of major proportions. Moreover, a great many of last year's market leaders, some of which have taken moderately severe beatings, have reached their downside targets and their vulnerability from these levels appears limited. Our current favored scenario, in other words, is for a minor-intermediate, not a serious market drop.

We expect, therefore, that the stock market will be a buy if and as the support levels mentioned above are reached. Nonetheless, as is always the case, the behavior of the market at those support levels will be important. Failure of demand to materialize at those reduced prices could raise some serious questions.

ANTHONY W. TABELL, CMT
DELAFIELD, HARVEY, TABELL

Dow Jones Industrials (12.00)	3254 47
Standard & Poors 500 (12:00)	404.32
Cumulative Index (4/9/92)	7221.64