TABELL'S MARKET LETTER

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The stock market is, as we know, a contrary beast, and it is seldom possible to make definitive statements about it. One of the few occasions on which one can do so is when it attains a new high after a protracted rise (or a new low after a fall.) At that point it can be noted with certainty that a bull (or bear) market exists. The high or low in question may of course be the final one of the market swing, but, as of the day the benchmark is attained, it can be firmly asserted that a given trend remains in effect.

Such was the case on Monday of this week when the Dow finished at 3378.13, the highest close in its history. If one is enamored of intra-day, rather than closing, figures, he could have made a similar statement on Wednesday, when that particular statistic set a new record at 3398.70. In any case, as measured by the Dow at least, we remained in a bull market as of this week.

It is indeed possible to quibble about some aspects of this happy state of affairs. Followers of the S & P 500 will note that the new-high award cannot be given to that particular average. Its close of 416.91 on Monday remained marginally below the 417.13 closing figure posted back on February 12th. The intra-day high of 418.53 achieved on Wednesday, moreover, failed to equal the like peak of 421 18, attained back on January 15th. In addition, as we noted last week, the action of secondary stocks has been abysmal. Even after a forty-point rally, the NASDAQ Industrials remain 13% under their February high.

Even more disappointing has been the action of market breadth. The onset of the current upswing last Christmas saw seven consecutive days with more than 1000 advancing issues, one showing over 1400 advances, one over 1300 and three over 1200. There have been only four days with more than 1200 advances since, three of them in early April, and 1000-1100 advances have of late been more common on good days. On a more quantitative basis, our daily breadth index remained, on Wednesday, six points below its high. Considering the fact that a two-point upmove in this indicator constitutes an extreme good day, it remains well away from an upside confirmation.

Signs of a loss of momentum are, therefore, present, but the bull market, by the definition noted above, remains intact. That definition, however, the reader will have noted, is a truism. What would be truly useful to know, of course, is how close, in time or extent, that bull market is to its ultimate end. Paradoxically, the answer to that question lies in how one chooses to answer yet another question---when did the bull market begin? This is an issue on which there is room for debate, even with advantage of over four years of hindsight. Yet the outcome of that debate is, we think, crucial.

Let us explore the question a bit further then. It is obvious that a bull market began in the fall of 1987. Monday, October 19th, 1987 is a date which will forever have a place in the annals of financial history. (We prefer the record the actual bottom as having occurred in December when the S & P reached its low, but the argument is academic.) Subsequently the Dow remained irregular through 1988, spent 1989 forging ahead to a new all-time high in October of that year, and after some further irregularity, continued to just under 3000 in July, 1990 Using monthly average prices, the DJIA was ahead at that point by some 54%

There then occurred a setback---a short and sharp one. It was over in three months, but, in its course, the Dow dropped off by a bit more than 20% on a closing basis and the S & P Composite by just under that figure. A twenty-percent decline has, in the past, been the rule-of-thumb criterion for identifying a bear market. Was the break of July-October 1990 a full-grown bear, or was it simply an intermediate-term correction?

The answer is important. If Summer-Fall 1990 was merely an intermediate correction we are now looking at an upswing that is 52 months old. The average length over the entire 20th century for all full cycles, measured low to low, is 45 months. The present elapsed duration is now approaching the length of the two longest bull markets in history---61 months in July 1982-August 1987 and 74 months in 1923-1929. In terms of amplitude, the market cannot be said to have advanced all that far, but its average-price rise, 72%, is in the area of the century's average (81%).

If, however, a new bull market began in October, 1990, we are presented with an entirely different picture. That bull market is only 18 months old, far less than any recorded upswing since June, 1949. The range of bull-market durations since then has been 21-61 months, with an average of 36 months. The rise has been 33% so far---a number at the extreme short end of the range of this century's major bull markets and one which would suggest a good deal of further room on the upside. The question of what sort of bull market we are talking about, one that began in the fall of 1987 or one than commenced in October, 1990, is, therefore of critical importance.

The primary argument against the optimistic view is the minuscule length (just 3 months or 61 trading days on a daily basis) of the putative 1990 bear market. On the other hand, as noted above, we are certainly stretching historical precedent by continuing to call everything that has taken place since 1987 a full, uncorrected upswing.

The fact that convincing arguments can be presented on both sides makes looking at the present market in cycle terms a difficult exercise. In practical terms, though, we cannot use this obscurity as an excuse to bury our heads in the sand. This is especially true if we are entering an era of short and sudden bear markets, and 1987 (also 1990 if it was a bear market) fits this description. We can only continue to watch present action closely---especially tracking the loss of momentum which seems to have recently manifested itself as noted above. This is our responsibility as investment managers. As market historians we will eventually have the opportunity to fit the pieces into an overall cycle pattern, but not, it would appear, until a somewhat later date.

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Dow Jones Industrials (12:00)	3367.40
Standard & Poors 500 (12:00)	415.96
Cumulative Index (5/7/92)	7395 05