TABELL'S MARKET LETTER

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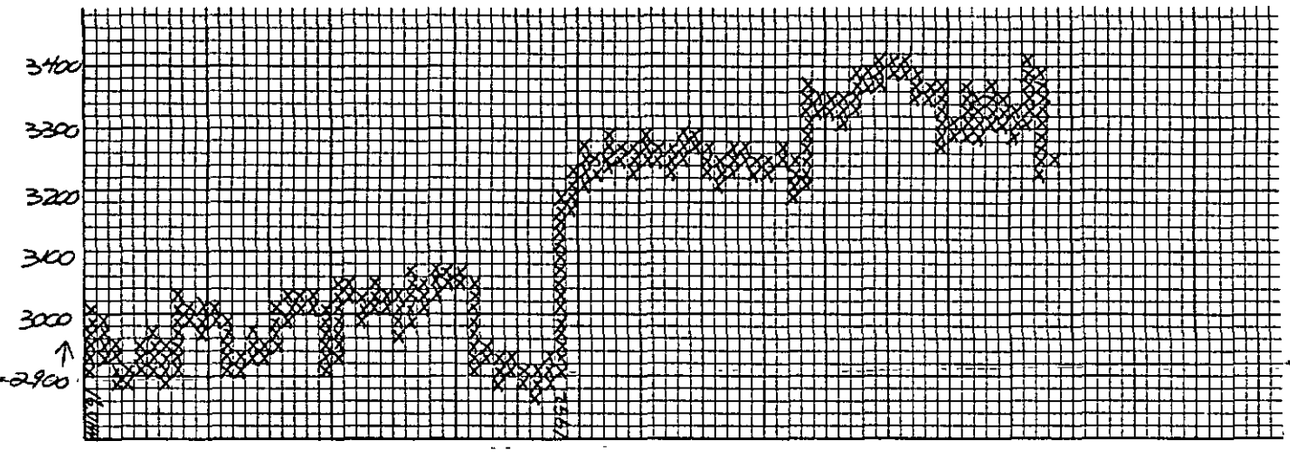
The market weakness which has characterized August so far comes almost as a relief in an equity environment which, for 1992 to date at least, has generated little excitement. To be sure, the trend for the first five months of the year was tortously upward. The year-end rally began on December 10 at 2863.82 and (with a not-unimportant six-week pause in March-April, of which more later) had, by June 1st, produced an almost-20% advance to 3413.21. However, the advance, by almost any measure, was tepid. Breadth peaked in February. Until recently, the Standard & Poors 500 had lagged well behind the DJIA. And most investment managers had difficulty duplicating even the action of that average.

It constituted, therefore, almost an event when, on Monday, the average managed to close a whopping 5.42% down from its June 1st high and almost 5% below where it had begun August, the month's peak having been reached on August 3rd at 3395.40 It was the market's third biggest fall since the low of October 1990, exceeded only by a couple of 6%-plus declines in January and October-December of 1991.



DOW JONES INDUSTRIAL AVERAGE MID-1991 20 POINT INDU

The drop, however, was not without technical significance, as the 20-point chart of the Dow above should illustrate. As the chart shows, the advance from the December low was in a virtual straight line almost to the 3300 level. The March-April pause in a narrow 100-point trading range looked as if it might be ready to foster a correction, and, indeed, that bane of technicians, a false downside breakout, took place. April and May, however, saw another sharp runup. The 3400 level was first reached, as noted above, on the first day of June. After stalling in July, the average made another run at 3400 in August (accompanied, finally, by an all-time high in the S & P 500) but failed to make any further progress.

Now the Dow has moved fairly decisively below its June-July low, and the potential top formation is fairly broad. The one constructive element that exists is that March-April trading area at 3300-3200 which could wind up providing support. It was, indeed, after a fairly deep penetration into that area that the market bounced in the latter part of this week. If 3200 is cannot hold, however, the likeliest possibility would be a probe of the late-1991 trading area at 3000-2850. This could be a somewhat less-than-pleasant experience.

Against this background, there exist, in our view, a number of further negatives, not the least of which is the pronounced downward bias of the month of September. We mentioned above the fact that breadth peaked back in February. This means that there now exists a divergence of 138 days, something that, historically, has not boded well for market prospects. On the plus side, breadth acted sufficiently well in early August so that, even after having retreated, our daily breadth index remains comfortably above its lows of April and June. Such short-term positive divergences, however, tend to have limited significance.

From a valuation point of view, we find the S & P 500 selling, at yesterday's levels, at almost 24 times trailing 12-month earnings, and 18 times estimated results for 1992. The p/e ratio is a more modest 15 if we apply it to estimated 1993 results, but there is some room for doubt as to whether the consensus estimate for 1993 is attainable, given the anemic nature of the recovery to date. A glance at yesterday's paper, for example, shows durable-goods orders down sharply from a year ago. With this sort of phenomenon now becoming commonplace, can one expect corporate profits of record proportions in 1993?

This diatribe sounds more pessimistic, perhaps, than it is intended to be. It needs to be stressed that our own experience include plenty of markets which have found themselves in a worse technical condition Our intent, simply, is to raise a few caution flags in a market whose 1992 dullness may have lulled investors

ANTHONY W. TABELL, CMT
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Dow Jones Industrials (12·00)	3263.83
Standard & Poors 500 (12.00)	414.38
Cumulative Index (8/27/92)	7518.58