TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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A great deal of scholarly work has been done on the existence of periodic cycles or waves in stock price action. A number of the published works in this area have seemed to us to be of somewhat dubious validity, but there is certainly no doubt, in our mind at least, that a certain amount of periodicity does exist in stock price action. One of the recurring cyclical events which has been studied at some length is the cycle of a bit longer than four years which tends to exist between major stock market lows.

The tabulation below which lists the months of major bottoms in the Dow-Jones Industrial Average for the postwar period does, indeed, suggest the existence of such a cycle. As the table quite clearly shows, these major bottoms have occurred regularly at intervals between 43 and 56 months with an average interval of 51 months. If the historical experience is duplicated, therefore, we can expect the next major stock market bottom to occur sometime between July, 1978, and August, 1979, more specifically, in March, 1979, if the current experience conforms exactly to the average.

Trough Date		Months from Previous Trough	Trough Date		Months from Previous Trough
June	1949	-	October	1966	52
September	1953	51	May	1970	43
October	1957	49	December	1974	55
June	1962	56	Average		51

The foregoing is, of course, of a great deal more scholarly than practical interest. In a stock market that is a bit more than a month past a new cycle high, we obviously are not particularly interested in predicting the date of the next low. What we would like to know is the date of the current bull market's peak. Even here, however, a study of the 51-month cycle has a few things to tell us.

As our readers will be aware, we have been incessant in drawing attention to the fact that the stock market, since the middle or late 1960's, has spent its time locked in a flat, secular trading range as contrasted with the upward secular trend which prevailed from the end of World War II up until approximately the last decade. Another characteristic of this trading range has been the shifting backward within the 51-month cycle of the date on which the cycle peak occurred. This is shown by the table below which shows the seven market troughs listed above, the associated subsequent peak, the number of months from trough to peak, the total months in the cycle, and the percentage of months spent advancing.

Market Trough		Market Peak		Months Trough to Peak	Total Months	% Advance
June	1949	January	1953	43	51	84
September	1953	June	1956	33	49	67
October	1957	December	1961	50	56	89
June	1962	February	1966	43	52	83
October	1966	December	1968	26	43	60
May	1970	January	1973	32	55	58
December	1974	July	1976*	19	-	-

* to date

As the table quite clearly shows, in three of the first four cycles, the market spent over 80% of its time advancing. It could even be argued that 1953-56 is really no exception since the June, 1956 highs were almost duplicated in July, 1957. In distinct contrast are the last two cycles, both of which only spend approximately 60% of their total lives in the advancing phase.

The historical data seem to argue against July, 1976 having been a major peak. Were the current cycle to equal the shortest one on record, that of October, 1966 - May, 1970 and spend 60% of its time advancing, this would still not produce a peak before December of this year. However, a peak at any time between now and the middle part of 1977 would cause the present cycle to look suspiciously like the last two and, thus, suggest that the flat, secular trend remains in effect. Were the market able to continue its advance through or beyond the end of 1977, it might well furnish a sign that an uptrend similar to the one that included the first four cycles above had been initiated.

Dow-Jones Industrials (12:00 p.m.) 983.05
S & P Composite (12:00 p.m.) 103.91
Cumulative Index (9/2/76) 607.46
AWT/jb

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL