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

October 1, 1976

"Curiouser and Curiouser!"

Lewis Carroll ---

Alice's Adventures in Wonderland

Alice's famous phrase to describe unusual happenings comes readily to mind when observing the recent behavior of the stock market. A week ago Wednesday, as we all know, the Dow, for no readily apparent reason, soared 20 points to attain, at 1014.79, a new 44-month high. The rise took place from a not-particularly-oversold condition and, indeed, prior to its occurrence there was little in the technical picture that would lead one to expect such behavior. The rally, however, turned out to be strictly a one-day phenomenon. Although it was extended on the morning of the following day, the market then turned down and closed slightly lower. With the exception of a modest advance this Monday, every day since has been a declining day, and the dynamic September 22 rally was counterbalanced by a sickening 18-point drop on Tuesday.

While expressing last week our willingness to assume the validity of the upside breakout, we noted that there were a number of factors which were, at least, moderately questionable. Breadth, we noted, was subpar on the advance and it has remained abyssmal ever since. The Transportation Index, while it rose along with the Dow a fortnight ago, failed to post any sort of meaningful new high. Likewise, our Cumulative Index failed on the rally to equal either its July high or its slightly lower peak of last February.

The ostensible reason for Tuesday's sudden drop was the announcement of an August decline in the NBER's composite of 12 leading indicators. This brings up another curious paradox which, undoubtedly, would have appealed to Lewis Carroll. If one examines the list of the 12 indicators which go to make up this composite, one discovers that one of them is the S & P 500-stock index. If one follows this reasoning to its logical conclusion, the stock market declined, at least in part, because the stock market declined. It is also worth noting that, in and of itself, a one-month drop in the leading-indicator composite is not, historically, a cause for weeping, wailing and gnashing of teeth as far as either the economy or the stock market is concerned. In the leading-indicator expansion between 1961 and 1966, for example, there were no fewer than nine one-month drops before the eventual peak was reached, and the 1966-68 expansion saw five. In the series most recent rise from 1970 through 1973, three one-month drops occurred, all of them, interestingly, fairly early in the cycle.

We are looking, to borrow a cliche from the sportswriting profession, at a market which has been unable to put it all together. Take, for example, the matter of breadth. Our weekly breadth index has provided a classic confirmation of the new high posted in the major averages, but our daily index has, albeit marginally, failed to do so and remains lower than it was last February. Yet, throughout June-July, while the Dow, at least, was doing nothing whatsoever, both breadth indices decisively penetrated their downtrends and, along with the Cumulative Index, moved up at a rate considerably better than that of the Dow. In the case of the Transportation Index, its failure to post a new high constitutes a lack of confirmation in the classic Dow theory sense and, yet, what are we to make of the fact that the carriers were soaring to new peaks last summer at a time when the Dow was stagnating?

What we are saying, really, is that if last week's rally was insufficient to change the atmosphere of stagnation which has enveloped the market since last spring --- and this apparently is the case --- then this week's decline has, likewise, failed to resolve the dilemma. We are back to what is really the basic question, which is whether the narrow trading range of recent months constitutes a distributional top or a potential upside continuation pattern. If the former is the case, then the downside implications have, by now, assumed major proportions. The problem is as we suggested last week, there is very little, if anything, to suggest weakness of those proportions --- moderate weakness in certain areas, yes; a broad decline, no, at least at the moment.

As always, the market ultimately will tell its own story, either by extending last week's rally or exhibiting further deterioration. Until the latter event occurs, however, we think a fairly positive stance is the proper one.

Dow-Jones Industrials (12:00 p.m.)	986.29
S & P Composite (12:00 p.m.)	105.35
Cumulative Index (9/30/76)	613.82

AWT/jb

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL