TABELL'S MARKET LETTER

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Predictably enough, the stock market, during the six trading days ended Wednesday, interrupted its sharp slide to new lows and staged a modest recovery. We use the phrase "predictably enough" because declines as steep as the one which ended, for the time being, at least, on October 12 invariably tend to be interrupted by correctionary rallies. Even the most casual observer, however, must have noted the relative torpor of the advance. Breadth was unimpressive on the rally as was volume,which slowly dried up as the market moved ahead. Upside volume figures were also relatively unimpressive. Moreover, at Wednesday's highs, upside objectives of the tiny base formed had been reached. All of this set the stage for the sharp decline late Thursday and early Friday.

None of the above is intended to suggest that it is totally impossible for a market bottom of some importance to occur around current levels. It merely suggests that the evidence accumulated so far does not point strongly to this being the case. For a short-term bullish forecast, further evidence would have to be provided. This could take the form of continuing backing and filling at or around current levels on the Dow, broadening the potential base formation and permitting the formulation of higher upside objectives on a short-term basis.

One of the fashionable reasons advanced for the market's slide in late September-early October has been supposed investor disappointment with the "slowness" of the economic recovery. In this connection, one of the disappointing figures regularly cited is the slow increase in capital spending which has, to date, advanced only moderately from its recession lows. The New York Times took up this point in a rather interesting article in Thursday morning's financial section in which it examined the possibility that the feeble recovery was due to a "secular slowdown", i.e., that superimposed on the normal business cycle there exists a long-term secular shift in the economy's rate of growth which caused the recovery to be less vigorous than previous early-business-cycle expansions.

The Times article cited a number of factors in support of this thesis. One is demographic, and it is undoubtedly true that a slowed-up birthrate will have some effect on the long-term economic picture although not one that could not be overcome by expansion of per capita productivity. Other reasons cited are a slowdown in technological innovation and a slowed rate of growth in the so-called "sun belt" area where economic expansion has been concentrated in recent years.

There is, indeed, a degree of validity to all of these arguments. We would, however, be somewhat reluctant to use them as input to a stock market forecast. Indeed, it is conceivable that the stock market has, for the past half dozen years, been forecasting precisely what it has now become fashionable to talk about in economic circles, that is, a secular slowdown.

It is a documented fact that the stock market on a cycle-to-cycle basis tends to lead the business cycle. It is certainly not impossible that it also does so on a secular basis and, as we have repeatedly pointed out, the secular trend of the stock market for the past six years has, quite obviously, been flat. A great deal of the supposed impedance to a vigorous economic recovery, in other words, may already be built into a stock price structure which, as of a year ago, was valuing corporate profits at one of the lowest levels recorded in this century.

Changing economic conditions are, and will continue to be, a reality and one which should be faced by investors. We think, however, that using these changes as an excuse for intermediate-term stock market movements is an exercise likely to prove futile at best.

Dow-Jones Industrials (12:00 p.m.)	941.66
S & P Composite (12:00 p.m.)	100.38
Cumulative Index (10/21/76)	592.86

AWT/jb

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