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

December 17, 1976

The season has arrived in which we traditionally fill this space for a fortnight with our two-part forecast for the upcoming year. We suppose that this year, more than any year, we should be tempted to discontinue the practice. We uttered in this letter, 51 weeks ago, the memorable statement, "1976, we think, is likely to assume the approximate shape of an 'inside year', one in which neither the 1975 high or the 1975 low is exceeded". As Tom Wolfe might say, "Zap!!!". The 1975 high of 881.81 was exceeded on January 6, the third day of trading in the new year, and the Dow went on to move above 1000 on an intraday basis for the first time in February. One of our friends and valued clients has spent the year calling us "Mr. Inside". Such are the perils of the forecasting business.

In partial mitigation, we will note that we did underline the word "approximate" and went on to suggest that we suspected that the market had entered a secondary bull-market phase, noting that "it would be quite possible to see a new peak during the next year, probably in the first half, without destroying the essential shape of the inside-year pattern". The new peak, indeed, arrived with embarrassing rapidity, but subsequent action was more or less what we had in mind, albeit that that subsequent action took place at a level 100 points higher than we suspected it would. After reaching 1000 for the first time in February, the Dow, as we all know, penetrated and repenetrated that magic level no fewer than 12 times during the rest of 1976. It further confused the issue by posting a false upside breakout to an intraday high of 1026.26 in September, holding that high for about two days and then moving to a disturbing new low of 924.04 on November 10, this breakout apparently as false as the previous one had been. As this is written, there is some evidence that a new upward move is underway. Although the Dow is not yet in new high territory, our Cumulative Index is chalking up new peaks for 1976 and breadth, as we noted last week, is showing unusually positive action, having soared to decisive 1976 highs over the past two weeks. Both the Dow and the S&P 500 have moved sharply out of their September-November trading ranges and the year-end rally is apparently underway in traditional fashion.

We couched our forecast last year in terms of primary and secondary phases of a bull market. That bull market has advanced, in 1976, to the point where we must now be thinking in terms of a tertiary phase. Indeed, a new buzz word has emerged among financial writers, that buzz word being "third leg". It is based on the popular belief that there are invariably three legs to a normal bull market, a belief which probably arose from a body of theory called Elliott's Wave Principle, which has long been an often-valuable forecasting tool but which is a great deal more complicated than a simple belief in tripartite upswings.

Part of the copious comment on the question of the three legs arises from the distinct and obvious shape of the bull market to date. The current upswing began, it will be recalled, from a slough of despond two years ago with the Dow having moved below 580. Over a seven-month period it rose sharply to its July, 1975 high of 881 whereupon it spent the entire second half of 1975 in a trading range between, roughly, 800 and 840. It now becomes evident, with 20/20 hindsight, that that trading range was the correction of the first leg of the advance which occupied early 1975.

1976, in turn, duplicated the previous year's performance in a way few markets, in our memory, have done. As we noted above, it moved sharply upward in an obvious second leg over the first two months of the year. It then spent from February to November, in terms of the Dow at least, doing essentially nothing. The essential difference between 1975 and 1976 was that in the latter year the upswing phase was shorter, two months instead of six, and the subsequent sideways movement more protracted.

Thus, the interest in the third leg. We think it probable that such a leg has begun and, indeed, it has, in fact, done so in terms of a number of indices which, as we pointed out above, have, as of this moment, soared to new bull market peaks. It would be a not-unusual development to see this strength continue into early 1977. What will be crucial, however, is the length and vigor of that continuance. We are dealing, let us remember, with an upward cycle now two years old which, based on the historical record of past bull markets, is, if not senility, at least advanced middle age. The extent to which the current upswing can sustain itself into 1977 will be crucial in drawing conclusions regarding the basic secular market trend. We intend to discuss this subject at some length next week.

A VERY MERRY CHRISTMAS TO ALL

Dow-Jones Industrials (12:00 p.m.)	984.71	ANTHONY W. TABELL
S&P Composite (12:00 p.m.)	104.88	DELAFIELD, HARVEY, TABELL
Cumulative Index (12/16/76)	644.17	

AWT/jb