TABELL'S MARKET LETTER

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In last week's edition of this letter, we reviewed in some detail market action during 1976 or, more properly, market action during the bull market which began in late 1974 and has extended on a number of indices at least, through this week. We tried to suggest that there were two major features of this action to consider in the formulation of a 1977 forecast. These were, first of all, that the bull market had attained an age of two years, placing it, on an historical basis, in a mature stage. The second factor to which we tried to draw attention was the shape of the bull market to date. It had consisted of two obvious upward legs, the first encompassing the first half of 1975, and the second, encompassing the first few months of 1976. Each one of these legs was followed by a rather protracted consolidation. With the recent market strength, there has developed a good deal of speculation as to whether a third leg of the bull market is now, in fact, underway.

Based on the action of breadth and our Cumulative Index, as we discussed last week, we are willing to hazard a guess that such is the case and that market strength may continue at least into the early part of 1977. Beyond this, the glass becomes somewhat murky and, as we noted a week ago, all this raises some very interesting questions as to the secular market trend.

Final bull-market legs, in most cases, are not terribly exciting in terms of the market averages, and, indeed, current technical patterns suggest that this may also be the case in the present instance. The Dow has a number of possible upside counts which center around 1040. In terms of the other averages, the Utilities, one of the leading performers to date, run into heavy overhead supply at around the 110 level, not too far above the present price of 105. Only in the case of the Dow Transportation Index is it possible to read significantly higher upside targets. It should be noted, however, that although the averages seldom perform outstandingly in the late stages of bull markets, individual stocks often turn in stellar performances, and this stage becomes a time when stock selection assumes increasing importance.

If a third leg is, in fact, developing, it will be a highly interesting phenomenon to observe. In a market letter last September, we pointed out the fact that one of the more interesting and reliable postwar phenomena has been a cycle averaging 51 months between major market bottoms. There have been six such recorded cycles ranging in length from 43 to 56 months, and, since we now are 24 months past a major bottom in December, 1974, this pattern should begin to arouse some interest.

We noted in our original study that the basic difference between the two most recent such cycles and the four earlier ones was that, while the trough-to-trough measurement was consistent in all cases, the four earlier cycles spent over 80% of their time advancing while the two later cycles spent only 60% of their time in an upward phase. Thus, if the current cycle were to turn out to be one of the shorter ones and spend only 60% of its time span moving up, a market peak in early-to-mid 1977 would be a distinct possibility. This, in turn, would suggest that the market remained in the grip of the flat secular trend which we all know has been its salient feature since the mid-1960's.

If, on the other hand, the present cycle were to approximate the shape of 1949-53, 1953-57, 1957-61 or 1962-66, we could expect that 80% of its time would be spent moving ahead. Such action would postpone the occurrence of the next major top not only through 1977 but on into 1978.

Thus, the most interesting time to formulate a long-range forecast is not the present moment when, as we noted above, the picture is somewhat clouded, but will be sometime in the middle part of next year. If we were to manage to get that far without serious market deterioration taking place and were new upside leadership to emerge, possibly among the cyclical issues which have spent a great deal of 1976 correcting their 1974-75 advance, it would then be possible to issue a highly bullish long-term prognosis. Such action would suggest that, while the inevitable bear markets might occur along the way, equity prices as a whole were headed for a new and higher plateau. On the other hand, deterioration in mid-to-early 1977 would suggest that we were in for a few more years of the dreary sort of action which has been characteristic of the past decade.

It is, in sum, in our view, difficult to say much about 1977 other than to suggest the probability of moderate strength during the first half. The fascinating thing about 1977, we think, however, is that it is likely to be the year in which the pattern for the next decade may emerge and become clear.

WE WISH YOU ALL A HAPPY AND PROSPEROUS NEW YEAR

Dow-Jones Industrials (12:00 p.m.)	986.12
S & P Composite (12:00 p.m.)	104.86
Cumulative Index (12/22/76)	644.54

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AWT/jb