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 21, 1977

Thomas Wolfe wrote a novel called You Can't Go Home Again, and the proscription embodied in that title has a parallel for investors, to wit --- you can't trade at yesterday's prices, or at last month's or last year's prices either.

The maxim is worth recalling at a time like the present. In all too many cases, investors are prone to remember the recent price history of stocks which they own and to allow that price history to influence their decision as to what ought to be done with the security in question at the moment. In the current instance, when prices have lately been falling fairly sharply, many security-holders will recall the fact that, a few months ago or a year ago, they could have sold stocks at higher prices and will allow this factor to color their decision as to whether or not to sell today. Like W. S. Gilbert's Flowers that Bloom in the Spring, this has nothing to do with the case. If probabilities favor the market heading lower by a sufficient amount, then stocks should be sold at today's prices regardless of where they may have been over the past year. By contrast, if stocks are attractively priced at current levels, they should be bought, and fears engendered by the fact that the market has been trending downward for nine months should be ignored.

The above bromide is easy to expound in market letters but difficult to follow in practice. It is further complicated at the moment by the fact that individual investors' perceptions of reality will vary depending on which sector of the marketplace their present portfolio most closely resembles. The Dow-Jones Industrials are now down 20% from their highs of September, 1976, the lowest level, as the newspapers are fond of pointing out, in over 24 months. Thus, if an investor's portfolio performance has recently resembled that of the Dow, he has watched his capital erode for the past 13 months and is poorer, theoretically, than he has been at any time during the past two years.

The Dow, however, --- we reiterate the fact once again --- is not the only segment of the market. We have referred to our Cumulative Index, which, we believe, is a fair measure of the action of all NYSE issues. In contrast to the Dow, it reached a new peak as recently as July 22, three short months ago. Since that time, it has declined along with all the other market indicators, but it is off by only 8.1% from its high and sold for its current price as recently as April and May. Quite obviously, perception of recent market history is going to be colored by which index more closely represents portfolio performance. A portfolio down 20% to a two-year low is likely to engender quite different feelings than one which has moved 8% off its high over 90 days and is still, roughly, within the confines of a six-month trading range.

And, yet, as we noted above, it should all not make the slightest iota of difference. The question --- indeed, the only question --- concerns whether a strong probability exists that well-chosen equities will, in the future, trade significantly below their prices at this precise point in time, October 21, 1977. Despite the dismal short-range behavior of the market, which has not improved any since we discussed it at some length last week, there are reasons to suggest that such is not the case. A glass can be either half-empty or half-full, and, while the fact that the Dow is already down 20% is not, as we noted, a circumstance calculated to generate wild enthusiasm, it does suggest that a fairly substantial degree of correction has already taken place. The fact that 20% has been a sufficient threshold to define major bear markets prior to 1970 should at least give one pause.

It is arguable, of course, that in the current case the Dow has merely led the rest of the market and that eventually the bulk of stocks, represented by the Cumulative Index, will play follow-the-leader into the abyss. The above-average technical action which characterized the broad-based indicators up until July is, unfortunately, no longer a fact of market life. Yet, it must be noted that analysis of individual patterns does not support this likelihood either. In all too many cases, downside objectives of previously-formed tops are being reached and support levels are being attained. We are inclined to think, based on analysis of the present rather than on looking at the past, that precipitous sales of equities would, at this stage, be unwise.

Dow-Jones Industrials (11:30 a.m.)	808.99
S & P Composite (11:00 a.m.)	92.38
Cumulative Index (10/20/77)	636.96

AWT/jb

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL