TABELL'S MARKET LETTER

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Broad and dynamic strength on Thursday and Friday of this week decisively violated the short-term downtrend channel which has contained the major averages since last July. A 14-point rally in Thursday's trading, on sharply increased volume of 32,000,000 shares, was followed by additional wide strength early Friday. The current problem centers around analyzing the broader meaning of all this admittedly impressive strength.

In the eyes of most investors, the job of the technician is to forecast, that is, to suggest, with as much accuracy as possible, what the market is likely to do in the future. It is assumed that, along with everybody else, he is aware of what it has done in the past and that, therefore, comments on past history will be of little save academic interest. This view, unfortunately, is somewhat of an oversimplification. The future is always uncertain, but even the past, on occasion, is somewhat murky. The present instance constitutes a rather neat case in point. Have we been, for the past year, in a bull market or a bear market? The answer to this question is less than obvious, and it must, it seems to us, be answered in order to gauge how one should peer into the future.

If one looks solely at the Dow-Jones Industrial Average, there is little doubt but that we have been in a bear market for the past fourteen months. The venerable thirty made their high that long ago and, early this month, were down 21% from that high, enough to qualify as a major downswing by any historical standard. The problem is that the Dow is not, as investors are coming to realize, the only game in town. The S & P 500-stock Index, for example, is down less than 16% from its 14-month-ago high. This amplitude, while somewhat on the extreme side, has in the past been squeezed into the context of intermediate-term declines within an ongoing bull upswing.

One problem with the intermediate-term decline argument, however, is that, in the case of both major indices, the process has been going on for fourteen months, a rather excessive period of time for a correction within an ongoing trend. It is, nonetheless, possible to get around this difficulty by looking at the action of market breadth or at an unweighted index such as our Cumulative Index. Using these indicators, we find that the market's most recent high was made last July, a scant 3 1/2 months ago, and it is certainly possible, on the record, for a market to interrupt an ongoing upswing for this short a period. Moreover, since making its peak last July, the Cumulative Index has dropped only from 694 to a recent close around 628, a 9 1/2% decline and one, obviously, fitting the description of an intermediate-term correction. What we are trying to suggest, of course, is that the simple question of where the market has been is, at the moment, almost as difficult to answer as the question of where it may go in the future.

So what? Noone, it may well be pointed out, is going to get rich on what the market did last year. The problem is that deciding what it did last year is crucial, in our view, to a forecast of what lies ahead. If the period since September, 1976 is to be considered a bear market by conventional standards, as the action of the Dow would suggest, it then becomes comparable to a limited and clearly definable set of past bear markets, and we would expect the same sort of action that terminated these downswings to be present at the termination of this one. Major declines in the past have tended, rather uniformly, to attain certain levels of downside momentum and a certain degree of oversold condition before terminating. We devoted this space two weeks ago to an extensive discussion of the fact that the present downswing has not yet met those standards, and this week's rally does little to change the situation.

If, by contrast, we are looking at the moment for nothing more than an end to a 3 1/2-month minor correction, then the standards we are able to apply are a good deal less stringent and comprehensive. If we are seeking nothing more than the end of a 15-week downturn that began last July, then the action of the last two weeks quite adequately fits the necessary criteria.

Having gone through the above exercise, we are forced further to confess that we have no immediate answer to the dilemma, at least in the theoretical context in which we have discussed it so far. In a practical context, the answer, strangely enough, is somewhat easier to find. Probabilities, at the moment, favor a rally, and, axiomatically, during rallies it is appropriate to own stocks. Just how far such a rally might extend in time or amplitude and where it is likely to fit into the larger cyclical puzzle are questions we shall have to allow the passage of time and the accumulation of additional evidence to answer.

Dow-Jones Industrials (12:00 p.m.)	842.52
S & P Composite (12:00 p.m.)	95.76
Cumulative Index (11/10/77)	655.17

AWT/jb

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