TABELL'S MARKET LETTER

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Part of the market commentator's stock-in-trade is the forecast. Indeed, it could almost be said that indulgence in this exercise is something expected by his readers, who come to expect, on a regular basis, some comment on what the stock market is likely to do.

The word "likely" is worth stress, since what is usually expected is a forecast rather than a prediction, and there exists here a subtle distinction. The latter word is Latin in its origin, stemming from prae, before, and dicere, to say. The former is a pure Anglo-Saxon product, related to the German vor and the Old Norse kasta, meaning to throw or project. In modern usage, Webster tells us, both imply "inference from facts or accepted laws of nature", but "'forecast' adds the implication of anticipated eventuality and differs from 'predict' in being usefully concerned with probabilities rather than certainties". Undue emphasis on probabilities versus certainties has often cynically been called hedging, but that is another matter.

We have often thought the demand for forecasts --- or even predictions --- to be an excessive and, indeed, unnecessary one. Forecasts do not earn an investment return and past "rightness" about the course of the stock market is generally not accepted as currency at the local supermarket. In asset management, a forecast is useful only insofar as it suggests a course of investment action and that course of investment action later turns out to have been a profitable one. The basic function of the investment advisor is to suggest appropriate investment policy. That policy may, indeed, be unrelated to a forecast, or the forecast which prompts it may, in fact, be a purposely limited one. We have in the past attempted to illustrate the investment decision-maker's dilemma by the admittedly over-simplified diagram below. It postulates two possible investment decisions, to be long stocks and not to be long stocks, and two possible states of the world, the stock market is going either up or down.

MARKET DIRECTION

DECISION	UP	DOWN
LONG	right	wrong
NOT LONG	wrong	right

There are thus four possible results, two of which are "right" and two "wrong." The two "wrong" decision boxes represent risk, and part of the problem confronting the investment manager at the moment centers on which of the two risks he prefers to assume, that of being long stocks if the true course of the market is, indeed, downward, or that of not being long stocks if the market's real direction is up.

We have been documenting in this space for about a month the sorry fact that recent markets have provided us with little on which to base a concrete forecast. We know that the past course of the market, from July to the end of October, was down, and we know that, last month at least, that downward course was temporarily stemmed. As we have been suggesting, however, the November rally failed to provide us with the sort of concrete reversal evidence normally seen at market bottoms. Thus, the difficulty in forecasting.

In the absence of a forecast, then, we are forced to choose between which risk it is more appropriate to take and here, we think, it is possible to come down firmly on the side of the proposition that the risk involved in owning stocks is preferable to the risk involved in not owning them. There are a number of reasons, both fundamental and technical, for this preference but, suffice it to say, we are willing to defend them.

Once we have come this far, an investment policy clearly follows, and that investment policy involves a reasonably aggressive attitude toward equities. The process of arriving at this policy has involved little in the way of a forecast about the viability of the current rally, that task, as we have suggested, being more than usually fraught with difficulty. It is policy, however, that will ultimately prove useful or otherwise, not a forecast.

Dow-Jones Industrials (12:00 p.m.)	822.94
S & P Composite (12:00 p.m.)	94.47
Cumulative Index (12/2/77)	678.64

AWT/jb

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