TABELL'S MARKET LETTER

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One of the reasons that technical analysis of the stock market has managed to hold our unflagging interest for the past 24 years is that it is a subject at once simple and infinitely complex. In practice, technical work may involve numerous difficult and highly esoteric techniques including the application of some of the more abstruse branches of higher mathematics. And, yet, at the heart of it all are a few eminently simple principles. Among these principles are the dictum that a trend, once established, tends to remain in force and that longer-term trends, even as bricks and mortar make up a building, are made up of shorter and intermediate-term trends.

The two principles above apply not only to trends, it seems to us, but to general market environments, a subjective definition that goes beyond simple up or down trends. The longer a given market environment remains in effect, the more obvious its individual elements become and the more clearly-etched its profile. As time goes on, of course, there will be short periods of market behavior which are inconsistent with this long-range environment. Often the central question facing the technician is whether or not the short periods cumulate to form a chain of evidence strong enough to suggest that the basic climate may be undergoing fundamental change.

To illustrate this sort of dilemma, it is only necessary to look at the experience of the past two years. 1976, at least subsequent to mid-February, constituted an identifiable market environment. The Dow, although it reached its high in September, moved sideways for a period of six months. It is a fair statement that, during this period, the Dow was typical of the action of most individual stocks. Breadth, during the middle two quarters of 1976, had no noticeable trend nor did our Cumulative Index of all New York Stock Exchange issues. Indeed, unlike the Dow, it failed to move to a new high in the latter part of the year.

After a short correction in October-November, 1976, the market began moving ahead sharply, this rally occupying most of the month of December a year ago. However, starting with this period, a noticeable divergence took place between the Dow and the more broadly-based market indicators. The Dow topped out on December 31, having failed to move to a new high. In terms of individual issues, however, the rally was a good deal more dynamic. Breadth, the Cumulative Index and, incidentally, the American Stock Exchange index shot ahead to new cycle peaks. We, thus, embarked, in that short month, on a period in which the popular averages were drastically understating the market's performance. That one month was indicative of a change in the basic climate.

Thus, although the trend of the averages altered radically as 1977 began, the disparity between those averages and the broad market continued. If one looked at the Dow, the first half of 1977 could be characterized as an irregular, not very steep, downtrend. As far as the other three indicators were concerned, the trend was also irregular but the bias was distinctly upward. It was quite clearly a market environment in which, despite the fact that the averages were trending lower, it was a sensible proposition to own stocks.

The scene shifted again in July. At that point, the downtrend in the averages became steeper, but this time it was joined by the other indicators. Breadth and the Cumulative Index both sunk to new lows although by a much lesser amount than the Dow. The question posed centered on whether this short-term action indicated an end to the superior performance of the broad-based indicators, just as the action of December, 1976 suggested the start of that performance.

The evidence to date does not so suggest. As we all know, the Dow rallied sharply last month and has, in the past week, been correcting a good part of that rally. A characteristic of the rally once more was superior action on the part of broad-based indicators. Breadth moved above its October high and close to its 1977 peak. So did the Cumulative Index, and the American Stock Exchange index, as recently as this week, posted a new high for 1977. Meanwhile, the recent downswing, which brought that rally to an end, is far too new a phenomenon to evaluate. The indication seems to be that the basic market environment which characterized most of 1977 remains essentially unchanged. The picture on the Dow, in a downtrend all year, remains clouded. However, there appears to be little to suggest that that wavering action is not continuing to understate the performance of the market.

Dow-Jones Industrials (12:00 p.m.)	812.37
S & P Composite (12:00 p.m.)	93.43
Cumulative Index (12/8/77)	668.00

AWT/jb

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