TABELL'S MARKET LETTER

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Mid-December has once again arrived, and anno Domini 1977 is about to pass into history. It is our usual custom to celebrate the ending of each stock-market year with a two-part series of letters. The first consists of a review of what we consider to be the salient features of the year just passed. The second, usually using the first as a takeoff point, generally attempts to peer into the future and to offer some thoughts as to the kind of market environment which will characterize the year ahead.

Historically, the first of the two letters tends to be the easier task. Our personal crystal ball is, generally, a bit clouded, while the history of the prior 52 weeks has already been writ and is abundantly documented. Producing a history, therefore, should consist of nothing more than selecting those features of the prior year which may be germaine to a forecast for the coming one.

Without implying that it will be easy to produce a forecast for 1978, it must be noted that, this year, interestingly enough, producing a review of 1977 is just about as difficult. How, indeed, are we to describe the fascinating and, in many ways, rather unique stock market with which we have been dealing for the past twelve months. An attempt at such a description immediately brings to light some of the difficulties.

Let us look, for example, at the most commonly used stock-market measure, the Dow-Jones Industrial Average. Its most recent cycle high was reached the day before the new year began --- on December 31, 1976 at 1004.65. (It had been higher by a miniscule amount three months earlier in September, 1976). On November 2nd, it reached a closing low of 800.85. The decline's extent is appropriate for those obsessed with round numbers. The Dow dropped just over 200 points, and, since it started at just about 1000, those 200 points represent almost exactly 20%. Succumbing, ourselves, to the conventional weakness for round numbers, we have, in the past, used precisely that 20% as our criteria for testing major bear markets. 1977, by this standard, qualifies, and the central task of our 1978 forecast should be to determine whether the signs of conventional bear market bottoms are, or have been, present.

Yet, when we begin to measure the behavior of the average stock, all manner of difficulties intrude, for, indeed, most stocks, by most measurements, have not been declining throughout 1977. Throughout the first six months of the year, the general trend of the Dow was flat to slightly downward. The history of broad-based market indicators through July of last year also showed a flat trend, but that flat trend had a distinct upward bias. The period July-October produced a decline of fairly serious proportions in the Dow. In terms of broad-based indicators, it produced only a minor correction. That correction was, indeed, so minor that the miniscule recovery which the Dow enjoyed during the first two weeks of November brought most inclusive performance measurements back close to their 1977 highs and, indeed, brought a few to new highs. All this took place while the Dow (and the S & P 500) were languishing around their year's lows, where they remain today.

It is not unusual for analysts with bullish or bearish biases to disagree on where the market is going. At the present, they find themselves embroiled in a controversy as to where it has been. The optimist can look at the Dow and suggest that, having undergone a decline of major bear-market proportions, it should be fairly close to its bottom. Or he can take the opposite tack and point out that broader-based indicators remain in a continuing uptrend with only tentative signs of loss of momentum. Conversely, the pessimist may point to the unrelieved downtrend in the Dow and use the argument that, since broad-based indices have declined relatively little, the market as a whole retains a good deal of potential on the downside.

The most perplexing part of all this is the fact that it is largely unprecedented. It is not unknown for broad-based indicators to outperform the Dow by a significant extent and, indeed, this usually occurs around the middle stages of bull markets. It is hard to fit 1977 into this particular category. Furthermore, such a divergence usually consists of superior upside performance by the bulk of stocks, while the Dow moves ahead to a lesser degree. The phenomenon of moves in opposite directions is rare, to say the least.

We have managed to write a whole page without really saying what happened to the market in 1977, and, as we have suggested, this is possible only because different, but equally valid, market measurements relate strongly divergent versions of the facts. It will be our job in next week's forecast to try to guess what implications this divergence may hold for 1978.

Dow-Jones Industrials (12:00 p.m.)	817.74
S & P Composite (12:00 p.m.)	93.49
Cumulative Index (12/15/77)	668.46

AWT/jb

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