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
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For some years now, we have studied the familiar seasonal tendency of the stock market to stage a year-end rally, and it has been the custom of this letter around the New Year to point out some of the conclusions that can be derived from a study of this phenomenon. We have suggested that an exhaustive study of chart patterns, since the Dow-Jones Industrial Average first was computed in 1897, indicated that such a rally, however miniscule, invariably had taken place. Until last year, the year-end rally as measured by the Dow-Jones Industrial Average had always carried into January. However, for the first time in the history of the DJIA, the 1976-77 year-end rally failed to continue into January reaching a closing high of 1004.65 on December 31, 1976.

Nevertheless, a number of interesting facts about the market action of the year-end may still be noted.

(1) - We have observed an identifiable year-end rally has taken place in every year since 1897. This rally often has been of great magnitude with advances as great as 28% having been recorded. It also, on occasion, has continued with only minor interruptions for as long as six months into the new year. However, on other occasions, it has been of only a few days' duration, reaching a top extremely early. Thus, in 1960, 1962, 1970 and 1973, the rally reached a peak by the first week in January. As stated above, the 1976-77 year-end rally failed for the first time to carry into January but for this exercise is considered in this category. In 1961, 1964, 1967, 1971, 1975 and 1976, the rally continued into February or March.

(2) - There has been a persistent tendency for the rally to begin early in years when the market has been up, and late in years when the market has been down. In recent upward years, 1959, 1963, and 1967 are examples, the rally commenced from early December. In 1975 the year-end rally started early on December 5, an up year, at 818.80. In recent downward years, 1962, 1966 and in 1969, the rally began late in the year. This year, 1977, a down year, is no exception to this rule as the year-end rally started on December 20th at 806.22.

(3) - The important thing to watch in connection with market action in the early months of the new year is the low for the previous December. This low has been broken in forty-six years out of the past seventy-seven. However, in twenty-seven of these forty-six cases, it was broken in January and February. Since 1937, it has never been broken later than mid-March, with the exception of 1965 and 1974. Thus, if the market is able to hold above its December low for the first 2 1/2 months of the year, chances become good that this low will not be broken. For example, in 1969, 1970, 1973 and 1977, the December low was broken by early January. In 1963, 1964, 1967, 1971, 1972, and, most recently, 1975, it never was broken. 1965, an up year, and 1974, a down year, as noted above, were unusual with the December, 1964 closing low of 857.45 being broken in June when the Dow closed at 840.59 and the December, 1973 low of 788.31 being broken in July when the Dow closed at 770.57.

(4) - In years when the December low has been broken, the subsequent trend has been downward two-thirds of the time. 1962, 1966, 1969, 1973, 1974 and 1977 are typical cases. Again, 1965 was an exception. 1970, of course, was a down year in the first half.

(5) - The magnitude of the rally is an important clue as to the year's market trend. For example, an advance of 10% or more from the December low has been followed by an upward or neutral market in thirty-three of the thirty-nine years that such an advance has occurred. An advance of less than 10% from the December low before an identifiable correction takes place has been followed by a downward market in twenty-six of thirty-eight years. In 1963, 1964 and 1971, the year-end rally approximated 10%, and in 1972, it was 17%. In 1962, 1970, 1973 and 1977, for example, it was less than this figure.

(6) - The length of time in which the rally continues into the new year also is important. For example, in twenty-one years, the rally continued into March or later. In eighteen of these twenty-one years, the eventual trend was upward. In 1964, 1972, 1975 and 1976, the year-end rall continued into March and in 1961, 1963, 1967 and 1971 into February. The most recent painful exception as previously noted was 1974.

This year, therefore, the December 20th closing low of 806.22 becomes an important reference point to watch. On Thursday of this week, the Dow-Jones Industrial Average closed at 830.39. The fact that this average has already advanced approximately 3.0% can be viewed constructively. If the rally continues in magnitude and continues into February or March, unlike last year, historically a good market year would be indicated.

Dow-Jones Industrials (12/30/77)	831.51
S & P Composite (12/30/77)	95.15
Cumulative Index (12/29/77)	672.16

ROBERT J. SIMPKINS, JR.
DELAFIELD, HARVEY, TABELL

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