

TABELL'S MARKET LETTER

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The market's memory is often a short one. For 79 years through 1975, the year-end rally had invariably continued for at least a day or so on into the new year. In 1976-77 this failed to happen, with the Dow moving immediately down from its December 31 high. This year, apparently, instead of returning to the long-term pattern, the market is trying to repeat last year's performance with the major indices having consistently moved lower from their December 30, 1977 closes.

In the process of that drop, the December low of 806.22 on the Dow, to which we drew attention last week, has been decisively penetrated, and, as we noted a week ago, this phenomenon, on the record, does not augur well for the market pattern in 1978. This year-end rally pattern, as our readers are aware, is an indicator to which we have been drawing attention for a number of years. It has, of late, begun to attract fairly widespread notice, especially since last year's January action proved an accurate harbinger of the year's trend. Many writers have suggested that the first five or the first ten days of January, or the month itself, tended to forecast the year's action. There is some truth in this, but a look at the record shows that it is not all that simple. The following table summarizes January action for the past 52 years as related to the subsequent year's market trend. It shows the number of times the market was up or down for five, ten, fifteen and twenty day-trading periods, plus the month of January as a whole, followed by the year's trend in each instance. For example, the first line shows that the market was up 34 times and down 18 times for the first five days of January. In the 34 years of a five-day up-trend, the full-year trend was up 26 times and down eight times. The 18 five-day downtrends produced seven up markets and 11 down markets. Similar figures are shown for the other periods.

January Period	Market Up	Market Down	Years Up	Years Down	Trend
1st 5 days	34	18	26	8	Up
1st 10 days	32	20	23	9	Up
1st 15 days	28	24	22	6	Down
1st 20 days	30	22	22	8	Down
Entire month	34	18	26	8	Up

An initial glance at the table would suggest that January, indeed, does have some forecasting properties. However, more rigorous examination will suggest reservations. It is necessary to recall, for example, that, in the 52 years in question, the market was up 33 times or 63% of the total. Thus, a naive procedure of forecasting, on the first of the year, that the market was going to be up would have been "right" almost two-thirds of the time. To qualify as an oracle, January must better this record. It does, indeed, do so, but not by much. Indeed, the record for all five January periods in forecasting up markets fails most standard tests of statistical significance.

Downward trends in January have a better record. While the forecasting records of ten and twenty-day periods are little better than could have been produced at random, downward trends over the first five days, the first 15 days and the entire month of January do appear to be related to the year's trend as a whole. Thus, the fact that the first five days of this year will probably see the market down reinforces the significance of the December low penetration discussed above.

Having documented the unpleasant auguries with which statistical inference provides us for 1978, we must confess to a certain amount of intuitive skepticism. A year-old downtrend remains in effect, and, at no time during 1977, did the market provide truly convincing reversal evidence for that trend. Certainly, market action so far suggests the continuation of that downtrend, at least over the short-term. Indeed, the immediate weakness could, we suppose, carry far enough so that 1978 will eventually come to be viewed as a downward year. The overall pattern, however, suggests to us that at some level, a level perhaps not too far from the present, a significant reversal could well take place. Looking for evidence of that reversal will be the most important task for stock market analysis in 1978.

Dow Jones Industrials (12:00 p.m.) 797.82
S & P Composite (12:00 p.m.) 92.12
Cumulative Index (1/5/78) 663.25
AWT/jb

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