TABELL'S MARKET LETTER

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One of the most useful tools of the market analyst is introspection. This is defined by the Oxford English Dictionary as the "examination or observation of one's own thoughts, feelings or mental state". By being honest with oneself, it is often possible to recall thoughts, feelings or mental states at previous market tops and bottoms and to guess the imminence of a turning point by trying to judge whether one feels the same way at the moment. One can extend the process by attempting to gauge as well the feelings of others. If enough people feel bearish, the reasoning goes, a bottom may well be at hand. The question of how we all feel at the moment, therefore, is not entirely unrelated to the current stock market quandry.

The question is, with the Dow down 25% over the past 18 months, how badly do we feel. We must, honestly, confess that we have, ourselves, not reached that level of dejection attained in, say, April, 1970 or early-October, 1974. It has been said that the ultimate copout of the technician takes place when he starts writing about fundamentals. Somewhere around past bottoms we have, historically, felt an urge to do a piece on how cheap stocks were. That urge has not yet come upon us this time around.

It is, indeed, possible to read the comments of our fellow analysts and find a fair amount of pessimism reflected therein. This is particularly true of our colleagues in the technical area, and yet that, really, should not be entirely unexpected. One of the basic tenets of technical work is the simple one that a trend, once established, tends to remain in force. There can be little doubt about the rather obvious fact that the trend now in force is a downward one. The very orderliness of that downward trend has precluded any of the climactic features one would expect if the trend were about to be reversed. That technicians should be bearish, therefore, is a hardly startling occurrence.

Yet, one must examine this bearishness further. The problem is that it is all too rational --- derived from logical detection of an existing trend and a concomitant absence of reversal signals. Our colleague, Don Worden, as he so often does, puts it astutely. "There are a lot of bears around," he comments, "but they're the wrong kind. They're intellectual bears. We need emotional bears." He notes further regarding these cerebral individuals that, "Before the bottom comes they will change their minds. They will be irrational in their pessimism. By the time the final bottom comes, they won't be prepared to believe. There is a great deal of difference in acknowledging a bear market and feeling suicidal."

Thus, the dilemma. Nobody, ourselves included, feels particularly suicidal. This being the case, contrary opinion would hold that one of two events will occur. Either the decline will bottom out quietly, unrecognized and largely unnoticed, or it will continue in classic fashion, deeper, longer and generally more horrible than anyone suspects, until such time as the tendency toward total despair becomes irresistible.

And yet, we wonder. A case can be made that the current downswing, after all, possesses somewhat different aspects. It comes, let it be remembered, after a 10-year period during which investors in general have become inclined to expect precious little out of the stock market. We first drew attention to the existence of a secular, flat market trend some seven years ago. That trend, and its resultant dearth of expectations for stock market results, has become so thoroughly ingrained in the thinking of most market participants that the present decline could be viewed almost as a natural phenomenon. It is shattered expectations that produce the most irrational pessimism at market turning points. After a decade of dullness, there may be little in the way of current expectations to be shattered.

None of this says that we would expect any attempt at a low around these levels to be totally without those signs of a turn which have characterized past market bottoms. We expressed this thought as recently as last November when we indicated that the rally then beginning failed to meet historic standards for reversal evidence. We do not, however, think that the reversal, when it comes, will announce its presence in the sort of clarion tones that many analysts, at the moment, seem to expect.

Dow-Jones Industrials (12:00 p.m.)	754.85
S & P Composite (12:00 p.m.)	88.20
Cumulative Index (2/16/78)	649.25

AWT/jb

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