TABELL'S MARKET LETTER

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March 10, 1978

We should, we suppose, in an effort to remain au courant with the juiciest tidbits of financial news, devote this space to commenting on the decline in the value of the dollar in world foreign exchange markets. Since this is a technical letter, the burden of such a comment would undoubtedly be, a) that the declining dollar probably explains nothing useful whatsoever as far as stock prices are concerned, and b) that, if it does, it explains why stock prices have lost one-quarter of their value in the past 16 months rather than anything pertinent regarding the future. We started last week, however, on a discussion of the recent downturn in the Department of Commerce's index of leading indicators and, in the interests of consistency, will conclude this discussion this week. The general conclusions will be about the same as those regarding the declining dollar above.

As we tried to suggest in last week's discussion, the principal difficulty with using the leading indicator composite is one of chronology. We noted that the earliest date that the index could tell us anything useful whatsoever would be late spring, around May or June. At that point, the only useful piece of information it could afford us would be that an economic recession might have just recently begun or, more likely, was about to begin within the next six months to one year. We further pointed out that the official recognition of such a recession, if it were to occur, would probably not take place until after the recession was over, i.e., probably sometime in 1979.

The problem is further compounded by the fact that stock prices in the past have generally peaked well before the onset of any recession and, by the time that recession is underway, have often been well on their way to their ultimate low. The following table gives the dates of the last six recognized economic recessions and shows the date of the previous peak in stock prices, the Dow-Jones Industrial Average on that date and that peak's lead on the recession peak in months. Following this is the level of the Dow at the start of the recession and the date and the Dow at the subsequent low. The final column shows the percentage of the decline completed by the time of the recession's outset. As can be seen, a goodly portion of the decline tends to be over with by the time any economic contraction has begun.

	Stock Price Peak			DJIA at	Stock Price Low		
Recession Date	Date	DJIA	Mos. Lead	Recess. Start	Date	DJIA	% Decline Completed at Recession Start
Nov 1948-Oct 1949	Jun 1948	193.16	6	171.20	Jun 1949	161.60	70
July 1953-May 1954	Jan 1953	293.79	6	275.38	Sep 1953	255.49	48
Aug 1957-Apr 1958	Aug 1956	520.95	12	484.35	Oct 1957	419.79	36
Apr 1960-Feb 1961	Jan 1960	685.47	4	601.70	Sep 1960	569.08	72
Dec 1969-May 1970	Dec 1968	985.21	12	800.36	May 1970	631.16	52
Nov 1973-Mar 1975	Jan 1973	1051.70	10	822.25	Dec 1974	577.60	48

Still further complications arise from the fact that the present downswing in stock prices is now 18 months old and that it leads the earliest possible peak in the leading indicator composite by some 16 months. This is a good deal longer lead time, as the table shows, than has been the case in past recessions, suggesting the possibility, at least, that what we are seeing at the moment is a stock market decline unaccompanied by any associated economic pullback. Such a phenomenon is, it should be noted, not entirely without historical precedent. Investors with long memories will recall that the DJIA dropped some 27% between December, 1961 and June, 1962. It was, at that time, the most severe drop in stock prices that had been recorded in 20 years. Later, stock prices dropped almost as severely in 1966. There was no downturn in business activity even remotely associated with either fall.

Interestingly enough, both periods in question saw declines in the leading indicator series not dissimilar to the sort that may have begun last December. The problem was that the recession the market was "looking for" simply never materialized.

It is not our intention to suggest that the analysis of economic activity is a totally useless exercise for the stock market forecaster. It seems to us, however, that a rigorous examination of past relationships of economic indices to stock price data is necessary before drawing firm conclusions.

Dow-Jones Industrials (12:00 p.m.)	754.42
S & P Composite (12:00 p.m.)	88.38
Cumulative Index (3/9/78)	657.15

AWT/jb

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