TABELL'S
MARKET
LETTER

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A particularly touching paradox regarding the stock market is that, while it remains, in many ways, one of the most unpredictable of all phenomena, there are aspects thereof which occur with refreshing repetition and regularity. True, the stock market cycle is largely irregular in terms of time, in contrast to the year and the seasons, which have fixed, predictable lengths. Nonetheless, after all markets which have declined deeply over a protracted period of time and then rallied sharply, as has been the case with the stock market over the last two months, certain plants have sprouted as predictably as the magnolia blossoms in Princeton, New Jersey, did last week. There is, in other words, nothing like a market advance after a long decline to bring forth the cry, "Rally in a Bear Market." It is not our intention to appear overly avuncular when we note that, having been professionally involved with no fewer than seven bear markets over our own career, we have heard the phrase enough times now so that it has a refreshingly familiar ring.

There are, you see, people who believe in rallies in bear markets, just as there are those who believe in astrology and the tooth fairy. The dreary fact, as we have pointed out in the past, is that the bear-market rally, while not quite as mythical a beast as the unicorn, remains one which has precious little grounding in historical fact.

Let us recite once more the dull statistical litany. The late bear market made its last low on February 28 at 742.12 on the Dow Jones Industrial Average. That average had advanced through Wednesday to 836.97, a rise of 12.78% over a period of 41 trading days. Let it be noted that in the post-World-War-II era, through 1973, there were no bear market rallies achieving a 12.78% magnitude.

Now the market offers exceptions to everything, and the exceptions to the above are convenient to those with short memories. For indeed, the last known-to-be-completed bear market, that of 1973-1974, had two rallies of a magnitude approximating the current one, a 15.87% advance over 46 trading days in August-October, 1973 and a 13.11%, 67-day advance in December, 1973-March, 1974. Indeed, both these advances displayed new volume peaks, although record-setting volume equivalent to the current case was lacking. It seems to us that these two exceptions provide rather scant underpinning for the myth of a supposedly common occurance. We think, in other words, that over the past two weeks something of meaningful significance, not a so-called bear-market rally, took place.

What took place, in a single phrase, we think, is a major reversal in those stocks which were in a position to enjoy major reversal. That rather torturous phrase is unfortunately the best one we can come up with. For a stock to be in a position to enjoy a major upside reversal, it must first have gone down. As of two months ago, despite a 27% decline in the averages, the stock market woods were full of stocks that had not gone down at all and, indeed, in many cases had moved rather sharply up. It seems unrealistic to us to expect that large subset of issues to have displayed the behavior associated with bear-market bottoms. As we noted last week, it is our view that a number of the characteristics of the present rally, including the decidedly substandard breadth of leadership, can be directly attributed to this particular factor.

While we think the available evidence points strongly in the direction of a bottom, we should, at the same time, not be unaware of a number of problems some of which we pointed out a week ago. We suggested then, for example, that prior volume reversals have often seen a subsequent test of the lows made and indeed, in some cases, penetration of those lows, although generally by a modest amount. (It is generally on the occasion of such tests that the bear-market-rally cry becomes deafening.) It should also be pointed out, however, that there have been past bottoms which have not involved such tests. We would hate to hang investment policy on the probability of one's occuring this time.

The second difficulty that should be noted is that while bottoms are often periods of shifting leadership, pinpointing of such shifts around the time of the bottom is a process that is historically fraught with difficulty. Base formations take time to develop. It is only by observing the relative speed of this process in individual issues that one can attempt to gauge where the market leadership may, in the future, become concentrated.

Despite these uncertainties, we think it fatuous to try to explain the past fortnight's almost-one-hundred point advance in terms of a largely mythical phenomenon. The advance points, we think, to a changed stock-market climate, the outlines of which will become clearer with time.

Dow-Jones Industrials (12:00 p.m.)	826.84	ANTHONY W. TABELL
S & P Composite (12:00 p.m.)	95.81	DELAFIELD, HARVEY, TABELL
Cumulative Index (4/27/78)	718.63	