TABELL'S MARKET LETTER

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As we have been indicating in this space for a year and a half, one of the more frustrating aspects of recent market action is that it provides us with almost nothing in the way of historical precedent upon which to base investment policy. Through February 28 at least, we had been in what, on the surface, appeared to be a bear market of perfectly conventional stripe. The Dow was down 26% over a period of 14 months and the S & P by a similar if somewhat lesser amount. In terms of length and amplitude, the declines in both indices were precisely within the framework of what market historians are accustomed to call major bear markets.

The trouble was, as we all know, that this so-called bear market was confined almost exclusively to the popular averages. Unweighted, broader-based indices, in which the influence of secondary stocks was greater, were moving ahead to new highs throughout the first half of the downswing, and were essentially moving sideways during the second half. Recently, such indicators have moved to new peaks without ever, over the 16-month period, having undergone anything noticeable in the way of correction.

As we noted above, this is unprecedented. The usual timetable in these cases is for secondary stocks to top out and move sideways well before the averages. In due course, first-tier issues turn down and begin to follow their junior brethren into lower territory. As the bear market gets under way, secondary issues usually lead on the downside, scoring greater percentage declines than the higher grade components of the averages. Finally, as the market bottoms, it is generally quality issues that enjoy a sharp rebound well before much action takes place on the secondary issues.

There have been variations on the above scenario but none so striking as the recent one. For high-grade issues to have undergone a full-scale bear market, while secondaries not only failed to decline but moved ahead rather sharply, is without parallel in recent market memory. It is hardly surprising, therefore, that there should exist conflicting interpretations of the phenomenon. It is perfectly plausible, in other words, for those pessimistically inclined to feel that the bear market cannot be over before secondary stocks join in. The optimist, on the other hand, since the whole thing is without precedent anyway, can adapt the view that first-tier stocks, having gone down all by themselves, can just as easily bottom by themselves and join the booming secondaries on the upside.

Herein, of course, lies the dilemma, and it is a dilemma that remains totally unresolved by recent frenetic upside action. The pessimist stoutly maintains that, with no secondary correction, the current action can be nothing more than a rally in a bear market. The optimist can see it as part of a bottoming out process in the beleagured high-quality issues.

We tend to place ourselves in the optimistic camp. The trouble with the gloomy scenario, in our view, is that, if it were a correct interpretation of the facts, certain things should now be happening. These phenomena, however, are, at the moment, notable for their complete absence from the market scene and, indeed, for the most part, precisely the opposite of what the pessimist would expect seems to be taking place.

It would be normal, under the gloomy view, to expect, with recent upside action having shifted to first-tier issues, that secondary stocks should turn laggard. Precisely the opposite has been the case. There have, in the past three weeks, among the 1500 stocks we follow on an individual basis, been no fewer than 170 upside breakouts of either major or minor proportions, the bulk of those having taken place in secondary issues. Since we have been keeping the figures at least, this number is a record for any three-week period. Meanwhile, our Cumulative Index continues to soar to decisive new bull-market heights.

In the upper tier, one would expect those issues that had participated in the bear market to have remained short of downside targets. Again, precisely the opposite has been the case. Basic-industry issues, at least, had reached major support levels by early this year. Their action since that time has been characterized by wholly-adequate rebounds off that support and is totally consistant with the early stages of basing action.

As far as the other bear-market leaders, the heavily capitalized growth stocks, are concerned, the bulk of these stocks, although admittedly not all, have adequately tested their 1974 lows, a level which, under conventional technical theory, should fully correct their overextension of the late 1960's and early 1970's. Action in these issues also has been consistent with an early base-formation process.

There may be factors, economic and otherwise, present at the moment which suggest an ongoing bear market. We suspect these factors have been widely noted and have by now attained the status of conventional wisdom. It must be stressed, however, that the scenario of continued decline is one which is, at present, emphatically not supported by analysis of the action of individual stocks in the marketplace.

Dow-Jones Industrials (12:00 p.m.)	840.78	ANTHONY W. TABELL
S & P Composite (12:00 p.m.)	98.00	DELAFIELD, HARVEY, TABELL
Cumulative Index (5/11/78)	738.81	

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