TABELL'S MARKET LETTER

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We have begun this letter in the past with the phrase, "Well now, what have we here?". What we have, first of all, is a short term downtrend, the Dow having closed just ten trading days ago on September 8th, at 907.74 and having finished Wednesday at 857.16, a drop of better than 5 1/2 percent. What we have, in addition, are fairly pronounced distributional tops in the major averages -- a fact which does not require expostulation by a professional technician, since it should be obvious to anyone who believes in such things as distributional tops and takes the trouble to look at the chart on the back page of the WALL STREET JOURNAL. Where some perspective is necessary, perhaps, is in the interpretation of these two facts.

It is, frankly, difficult to become unduly exercised about the top referred to above. Its downside objective is, roughly, 850-840 in terms of the Dow -- an area that coincides with relatively strong support. Nor does it appear appropriate, on an historical basis, to become deeply worried about the extent of the decline. Drops of 7-8 percent, which is what this one would turn out to be if the aforementioned downside objective were reached, are not uncommon in the context of major upswings, although they have tended to occur late in advances rather than in the early stages. What we are saying in other words, is that nothing has occurred in the past two weeks to shatter the rather positive expectations we had retained concerning the stock market.

It is perhaps worth recalling the process by which major tops tend to form. That process tends to involve one form or another of loss of momentum, such as, for example, decidedly inferior action on the part of market breadth measurements. These measurements have dropped off sharply in the past fortnight along with the rest of the market, but just two weeks ago they were uniformly achieving new highs. It is, of course, entirely possible that a peak in breadth was seen early this month, but that peak, it should be recalled, is supposed to lead major downswings by a fairly considerable time period. What we have seen over the past couple of weeks could, of course, be an early indication of a dangerous loss of momentum. The current evidence, in our view, does not admit of more than that.

This first instance of noticable market decline has been seized upon with almost lascivious glee in some quarters, especially those who have remained skeptical of the entire advance since February. Along these lines, one of the favorite topics of market Cassandras has been the existance of speculative activity, and, indeed, some of the comments on the subject seem to suggest that we are at the moment witnessing a combination of the worst features of the Holland Tulip Bulb mania, the South Sea Bubble and the 1929 crash. Most recently, of course, such commentators have been able to point to the wide moves, first up and more recently down, in gambling issues. It cannot be denied that such moves have, indeed, taken place, but it should also be kept in mind that this action is restricted to some 1/2 dozen issues constituting a miniscule portion of the total list.

More fundamental evidence of speculative activity exists, we think, elsewhere. The number of margin accounts, for example, has continued its fairly steady rise from the 1974 lows and has now exceeded its 1968 peak. The outperformance of higher grade issues by secondary stocks is a not-at-all-new phenomenon that has recently continued unabated by most measurements. In this connection, however, it should be pointed out that these issues began their recent sharp rise from a point where they were fundamentally undervalued in relation to the rest of the market, and it is arguable, at least, that all that has taken place in the past year or two is a return, on the part of these stocks, to their normal niche in the overall market picture. Finally, it must be recalled that speculative activity, like some of the indicators referred to above, generally tends to be an indicator of market momentum rather than market level. Thus, at least in one sense the upside current that has carried the market along through early this month continues to flow.

It is not our intent, in this analysis, to ignore or to gloss over less-than-favorable portents. Like most people we would prefer to see the market consistently move ahead to new highs without any correctionary interuptions. Such markets, of course, present little difficulty for the technician. They are, however, rare, as the present instance tends to suggest.

As we have tried to indicate above, signs of market deterioration do not tend to present themselves in blinding flashes but in accumulating chains of evidence. If such evidence continues its buildup, we will comment thereon and suggest appropriate action. It is premature at this stage, we think, to become unreasonably pessimistic based on the downswing of the past few days.

Dow-Jones Industrials (12:00 p.m.)	858.45	ANTHONY W. TABELL
S&P Composite (12:00 p.m.)	101.71	DELAFIELD, HARVEY, TABELL
Cumulative Index (9/21/78)	779.59	