TABELL'S MARKET LETTER

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Nobody likes declining markets, and sharply declining markets are especially distasteful. The natural question asked by most investors, therefore, when they are confronted by a phenomenon such as the price collapse of the past two weeks, is "When will it all be over?" As is often the case in turbulent stock markets, it is the wrong question.

The reason the question is wrong is that short-term cycles, however painful momentarily, do, ultimately, run their course. The question that should almost always be asked about short-term action should center around what it is telling us about the unfolding longer-term picture. The question we should now be asking ourselves is whether or not the sharp price reversal of the past two weeks suggests termination of a cycle, or -- in the present case -- either one of two cycles, the four-year-old bull market which has existed in the broad range of individual securities and the barely-six-months-old bull market in the widely-followed stock market indicators. We think the answer in both cases is no -- with a fair degree of probability in the first instance and an even greater degree of probability in the second.

That having been said, we can turn our attention momentarily to the more widely-asked question about whether the short-term downswing is likely to be over, and the answer here is "probably not." Although the drop, except for Thursday's plunge, became less broad this week, and the rate of decline mitigated somewhat, we are unable, at this writing, to detect any convincing signs of reversal evidence. Predictably enough, with the Dow down about 9% at current levels, a short-term oversold condition has been reached, indeed an oversold condition that, on many indicators, approaches record proportions. What it is necessary to remind ourselves about short-term oversold conditions is that they can always become more oversold and that they can continue to exist for fairly lengthy periods of time. Although, as we noted here last week, climactic conditions existed at the sharpest stage of the decline a week ago, a drop as vicious as the current one often requires multiple climaxes prior to its ultimate reversal. We have at the moment reached one of those paradoxical stages when a tepid rally would be bearish. The most constructive thing that the market could do currently would be to complete the washout and allow us to get on with the more important business of assessing its significance.

By the time a decline has gone as far as the present one, tops are complete and downside targets are available. Currently, existing distributional tops are fairly well defined. For the Dow-Jones Industrial Average downside objectives center around the 810-805 area. In the case of the Standard and Poors Composite the objective is approximately 95, and for the Standard and Poors Industrials the plausible target appears to be in the 105 area. Other indicators, notably indices of financial stocks and the Dow-Jones Transportation Average, have already approached downside targets.

The point is that there is very little in the technical patterns of these indicators or indeed in the existing patterns of individual stocks to suggest objectives significantly lower than this. In order for such objectives to exist the distribution patterns would have to be broadened. Since most such patterns have already been penetrated on the downside, such a broadening would require a significant rally. Such a rally is in turn unlikely to take place without completion of the current cycle and a base formation process which would take time.

Much has been made of the sharpness of the decline in secondary stocks, and indeed this phenomenon reached the front page of the WALL STREET JOURNAL on Thursday. It has long been axiomatic that, once a piece of financial news reaches this lofty degree of prominence, it is too late to act on it. The sharpness of the decline among secondaries can, we think, be attributed to two factors, their already-sharp rise and the fact that they are more volatile than the general market in the first place. The American Stock Exchange Index, to select a convenient proxy for secondary issues, had at its recent high, risen 227% since late 1974. That it should now be subject to a correction of 19 %, the amount it had actually declined at its recent low, is hardly surprising. While we do not rule out the possibility of widening distributional patterns beginning to build in secondary issues, we do not think that, at the moment, these patterns are yet complete. In the case of higher-grade issues, all that the recent decline has done in most cases is to bring them back into what, we feel, will ultimately be regarded as long-term base formations. Within these base formations massive support exists, and in many instances the current weakness must be viewed as a buying opportunity.

In summary, then, while the downswing that began on October 11th has probably not yet run its course, we do not regard it as a harbinger of more disruptions to come. We think in other words that the drop, rather than an ill omen, may well prove to be an attractive purchase opportunity.

Dow-Jones Industrials (12:00 p.m.)	816.53	ANTHONY W. TABELL
S&P Composite (12:00 p.m.)	95.68	DELAFIELD, HARVEY, TABELL
Cumulative Index (10/26/78)	698.39	

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