

TABELL'S MARKET LETTER

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As Yuletide once again approaches, it becomes incumbent upon us to follow tradition and prepare this letter's annual forecast of the stock market climate for the year ahead. We have, according to recent custom, divided this exercise into two parts. The actual forecast is reserved for the second stanza, and the first part is devoted to a review of this year's past action, trying to focus on those elements of that action which might lay the groundwork for looking into the future.

For obvious reasons, the second part has always been more difficult. Forecasting is always a hazardous business at best, and it is often difficult to set down a precise version of a market outlook at a time when the portents may be somewhat murky. Reviewing the past, by contrast, has generally been easy, requiring nothing more than a history of the year's action in the popular market averages. This, however, has become less and less true in recent years, and indeed, in the case of 1978, looking backward is just about as difficult as looking forward. The reason for this can be shown in the following table which summarizes the 1978 history for four market indicators -- the Dow-Jones Industrials, the S&P 500, our own Cumulative Index, and the American Stock Exchange Valuation Index.

	12/30/77	1978 LOW	SUBSEQUENT HIGH	OCT.-NOV. LOW	12/14/78
DJIA	831.17	742.12 (2/28)	907.74 (9/8)	785.26(11/14)	812.54
S&P 500	95.10	87.04 (2/28)	106.98 (9/11)	92.49(11/14)	96.04
CUM. INDEX	673.51	638.83 (1/16)	830.54 (9/12)	647.48(11/14)	681.06
AMEX INDEX	127.89	119.73 (1/11)	176.87 (9/13)	136.75(10/31)	150.21

It is only necessary to compare the figures for the 1977 close with the current ones to appreciate the difference. The Dow, at recent levels, was slightly below its quotation at the last year-end, whereas the S&P 500 and our Cumulative Index were essentially the same, or a hair's breadth above, their December, 1977 levels. The Amex Index, on the other hand, remains above its year ago figure by a not-insignificant 18%.

The details of how this end result came to pass are even more diverse. The two major indicators had been weak throughout 1977 and continued that weakness for the first two months of this year, reaching their lows at the end of February. By contrast, the two broader indices reached their low points during the first two weeks of the year. All four averages spent the year advancing, and all reached highs in early September. For the Dow and the S&P, the advance was an appreciable, if not startling, 22%. The Cumulative Index, however, managed to advance 30% and the Amex Index a spectacular 48%.

Whereupon the first became last. In one of the sharper declines of recent market history in September-October, the first three indicators moved back below their 1977 closing levels, and the Amex came close to doing so. Since their prior advances had been mild, the setbacks in the leading averages were minor. The Cumulative Index and the Amex Index, however, both posted declines in excess of 22% from their September highs. For holders of secondary stocks, the progress made during the year may not be all that different than that of the averages, but the roller-coaster ride has certainly been exciting.

When one tries to compare the action of the four indicators over the longer term, the task becomes even more difficult. The last point at which they can be said to have been "in gear" was when they posted bear market lows in late 1974. They then advanced together through September of 1976, but at that point the major indicators turned downward and, at their bottoms earlier this year, were more than 20% below those peaks. By contrast, the other two averages advanced almost continuously throughout late 1976 and 1977 ---- an advance that was stalled only by the sharp declines of two months ago.

The central question to a 1979 forecast is where this diverse action leaves us at the moment. The action of late 1974-September 1976-February 1978 in the two major indices has many of the attributes of a completed cycle containing both an upswing and a downswing of major proportions. By contrast, the two broad based indicators have shown an uninterrupted four-year advance through September, having on the surface at least, some vulnerability to further weakness. Trying to piece this diverse cyclical action into a coherent 1979 forecast is a task we shall attempt -- with some trepidation -- next week.

A VERY MERRY CHRISTMAS TO ALL

Dow-Jones Industrials (12:00 p.m.) 810.20
S&P Composite (12:00 p.m.) 95.87
Cumulative Index (12/14/78) 681.06

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