TABELL'S MARKET LETTER

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Stock market action is a phenomenon often seen through a glass darkly, and the significance of market movements tends to become more obscure the closer the perspective. For example, we have recently been discussing in this space the four-year-cycle pattern in the stock market, and, as readers of that discussion will be aware, it has only recently become evident, 18 months after the fact, that a bottom of major significance in terms of that cycle probably occurred in the spring of 1978. While it was possible, of course, to suspect that this was the case for quite some time, evidence became overwhelming only this July and August as most indices moved to new bull-market highs and time began to run out on the possibility of new cycle lows being attained within any sort of a sensible time frame. Ironically, it is only in the light of this recent interpretation that we can now go back and reexamine some of the market events of 1978, events whose meaning was relatively obscure at the time, and attempt to place them in their proper perspective.

The first event whose meaning was unclear at the time of its occurrence was the actual bottom itself, which took place in early March. Identification of that bottom as a major turn was far from easy. We have been rereading, for example, our own comments at the time. We did note on March 17, 1978 the fact that the steepest portion of the 1977-78 downtrend had been reversed, but we were unsure as to whether this was of short or long-term significance. The following week, commenting on possible reversal evidence, we said, "All these signs. . .are subtle and a good deal less dynamic than the strength of last December which later proved to be a false rally. Certainly more confirmation in a number of areas would be appropriate before it is possible, from a technical point of view, to adapt an unreservedly bullish stance." Shortly thereafter, some six weeks after the actual low, we first drew attention to the possibility that a bottom in terms of the four-year-cycle might have occurred, but noted also, "the total absence to date of technical signs of a major bottom." Quite obviously, in short perspective, the portents were somewhat less than clear.

In any case, the market had continued its advance during the summer of 1978, reaching, on the Dow, above 900 by mid-September. This led to the second phenomenon whose meaning was difficult to interpret. In a surprisingly sudden downtrend, the market moved sharply lower during October as the Dow plunged to new lows under 800. There then occurred, during the first week of November, 1978, an almost classic selling climax of the type which historically has featured bear-market bottoms. Indeed, based on a number of measurements, the first week in November, 1978 reached an oversold condition which surpassed any comparable condition since 1926, including the entire period of 1929-32. All of this was easily recognizable to the technician, and our letter of that week commented on it. However, we were forced to go on to say, "We are compelled to raise a more-than-moderately disquieting point. It all took place at the wrong time. The textbook climax action of last week occurred, not after a major downswing, but very close to a market top scored just last September. This, and the fact cannot be ignored, is totally without precedent for the last 30 years."

1978, therefore, saw two events which were extremely difficult to interpret at the time of their occurrence. The first was an apparent stock market bottom in the spring featured by a total absence of the sort of reversal signs normally associated with such bottoms. Second, those reversal signs finally occurred --- but not until six months later in October-November, and they occurred at the conclusion of a short, medium-scale decline, rather than, conventionally, at the end of a major downswing.

Perhaps it is our own obtuseness, but it did not occur to us, at least until recently, to view the two phenomena as being associated. Now, however, it becomes possible to view all of the 1978 action as a sort of "double bottom," in which the major averages reversed themselves at an early stage, totally without the usual climactic indications and in which the rest of the market performed a cyclical reversal at a higher level and with all the conventional fireworks some six months later. This view fits neatly into the cycle pattern, which, we suggested above, only became apparent with the strength of last summer.

This whole exercise of groping our way toward an explanation of the events of the last 18 months is not, in our view, totally academic. If this view is indeed the correct one, it would suggest that, from a technical point of view, the present cycle has a good deal longer to go both in terms of time and amplitude.

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Dow-Jones Industrials (12:00 PM)	877.22
S & P Composite (12:00 PM)	108.49
Cumulative Index (9/13/79)	798.02

AWT:sla