TABELL'S MARKET LETTER

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It would, needless to say, be possible, given the time and space,to put together a short book exploring the ramifications of the astonishing market events of the past week. Both factors, however, are limited, so we must content ourselves at this stage with what we hope are some relevant observations.

It is first necessary, we think, to disabuse oneself of the notion that the shift in monetary policy announced by the Federal Reserve last weekend has any relationship to the behavior of the stock market any more tangible than the trigger has to the rifle bullet which it fires. Let it be remembered that it was only last summer that the market greeted the accession of Mr. Volcker to the Fed chairmanship with one of the stronger rallies it had put on all year. This was, presumably, in anticipation of his instituting precisely those policies which were set in motion last weekend. The market seldom performs in a fashion vastly different from the one for which it has prepared itself, although sudden and unexpected events --- of which more below -- can often greatly intensify that performance. Such was the case, we think, this week.

Let us next consider the volume, a record 81 million shares on Wednesday, coupled with almost equally amazing numbers the rest of the week. This, in our opinion, is the least remarkable aspect of the whole affair. Recent volume figures, in relation to shares listed and to the historical record have, if anything, been on the low side. It was, therefore, hardly surprising that trading activity, an increase in which is a normal function of unusually sharp downswings, should have attained new records this week. Indeed, we doubt very much that this particular record will stand for very long.

Neither is the steepness of the decline all that unprecedented. The Dow found itself down 4.46% on Tuesday and off 5.38% for the three days ended Wednesday. Comparable drops, at various stages of the market cycle, constitute a not-uncommon feature of equity market annals.

The factor that does, we think, set this week's market apart and which assumes paramount importance from an analytical point of view is the downswing's unusual broadness. On Tuesday, 1765 issues out of a total of 1937 traded moved lower. This instance, of 91.12% of all issues traded declining, is, for the record, the 7th largest percentage over the 53 years that breadth figures have been kept. The 86% figure, which followed it on Wednesday is, itself, almost as unprecedented.

Since this sort of downside breadth is, indeed, relatively uncommon, it is appropriate to ask, "Of what stage of the market cycle is it characteristic?" The most important fact which can be noted is that it is NOT, historically, characteristic of the early stages of an ongoing decline. Examination of the record shows that, as a long downswing starts out and begins to gain momentum, trading days in which 70-80% of traded issues fall in price begin to become a fairly regular feature. The sort of extraordinary downside breadth occurring this week has almost universally failed to occur until such time as the market approached a climactic bottom.

Now with the major averages having reached new peaks just a week ago (and unweighted averages some six weeks ago), it is somewhat fatuous to compare recent action to the sort of thing that occurs at the end of major bear markets. It does, however, tend to occur on one other sort of occasion, those rare instances where a market decline is related to a sudden and unexpected event. Examples which occur are the Kennedy assassination (75.8% of issues declining), the Eisenhower heart attack (92.88%), and the outbreak of the Korean War (89.5%). Perhaps the most interesting parallel is the announcement of the Treasury-Fed accord of March, 1951 (82.5%), probably the last instance of a shift in monetary policy comparable to the present one. In all of these instances, a decline which might have been stretched out over a relatively long period was compressed into a short space of time given the impetus of a particular event. It is worth noting that all of the instances mentioned above were, shortly, followed by recoveries which took the market to new highs.

Now we are not here either suggesting such a recovery or indicating that new lows in the present downswing may not continue to occur over the near term. We think, though, that the record does suggest the inadvisability of precipitate action in response to last week's events.

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Dow-Jones Industrials (12:00 PM)	845.22
S & P Composite (12:00 PM)	105.30
Cumulative Index (10/11/79)	743.86

AWT:sla