TABELL'S MARKET LETTER

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DIVISION OF

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MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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The storm of extraordinary downside pressure which buffeted the market during the week of October 8-12 abated somewhat this week. It would be difficult, however, to describe the week's action as providing any sort of convincing reversal evidence. Modest new closing lows were posted on Monday and Tuesday, and Friday morning's trading saw renewed downside pressure. Although fairly dynamic rally attempts were mounted during various times during the week, all failed to display any sort of follow-through. It was certainly impossible to read, in the week's activity, any augury that near-term lows had been seen, much less that any meaningful rally attempt was in prospect.

None of this, however, is particularly relevant to putting the decline of a fortnight ago in its proper context. The meaningful question centers on whether last week's sudden collapse suggests an end to the irregular up-market which began in early 1978, or whether it constitutes merely a sudden, sharp, and unexpected blip on what will ultimately be recognized as an ongoing uptrend. We made a preliminary attempt last week to determine just where previous declines of similar vehemence fitted in to the long-term market cycle. The result, we think, is interesting and merits some further expansion.

We noted last week that on Monday, October 9, 91.1% of issues traded moved lower in price and pointed out that this was the seventh highest figure since breadth statistics have been maintained. The near record was followed on Tuesday, October 10 by a day on which 86% of all issues traded declined. The relative rarity of such occasions is underscored by the fact that, since 1946, there have been only 147 trading days on which more than 75% of all issues changing hands moved lower. The essential point which we tried to make last week was that these occurrences generally have been characteristic of two sorts of occasions: 1) the terminal phase of major declines, and 2) declines which take place in reaction to sudden and unexpected events, a category which, we think, suitably characterizes Mr. Volcker's bombshell of two weeks ago. The point is that recent action hardly falls into the first category mentioned above, since it took place within a week of the major indices' achievement of new bull-market highs. It seems, therefore, highly likely that it must be placed in the second category. It is, therefore, worth noting that most declines of this type were shortly reversed by moves to new highs before too long a time period had elapsed.

We have tried to underscore this on the chart reproduced on the reverse side of this letter. The chart condenses the history of the Dow since 1946 and notes, together with the appropriate percentage, each of the 147 trading days on which 75% or more issues declined. A look at previous major bear markets reveals quite clearly that days showing an extraordinarily high percentage of declining issues were not characteristic of the ongoing stages of those downswings. When such days occurred during bear markets, they tended to occur at points very close to the terminal phase. Moreover, as the chart quite clearly shows, extraordinarily high percentages have been common characteristics of the ongoing stages of upswings, often initiated by unexpected surprises such as the Eisenhower heart attack in 1955 or the Kennedy assassination in late 1963. It is this sort of action that is, to us, evoked most clearly by the events of a week ago.

Another point suggested by the chart is the extraordinary frequency of broadly declining days during the late 1940's and early 1950's. This was, of course, a period in which the market was moving irregularly, much as it has of late. It was, likewise, a period of considerable controversy in regard to appropriate monetary policy and its relation to inflation, a period which culminated with the accord of March 9, 1951 with which the Fed ceased its policy of inflating the money supply by artificially supporting low interest rates. It was also the last period in which stocks, battered by monetary uncertainties and talk of impending recession/depression, sold for the sort of historically low level which characterizes equity prices today.

While we would be reluctant to push this analogy too far, it is apparent, we think, that last week's action, on the record, hardly constitutes evidence of a major downside reversal. Indeed, it is a phenomenon, as the historical record amply shows, not at all uncharacteristic of an ongoing upswing.

ANTHONY W. TABELL
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Dow-Jones Industrials (12:00 PM)	825.68
S & P Composite (12:00 PM)	102.98
Cumulative Index (10/18/79)	735.19

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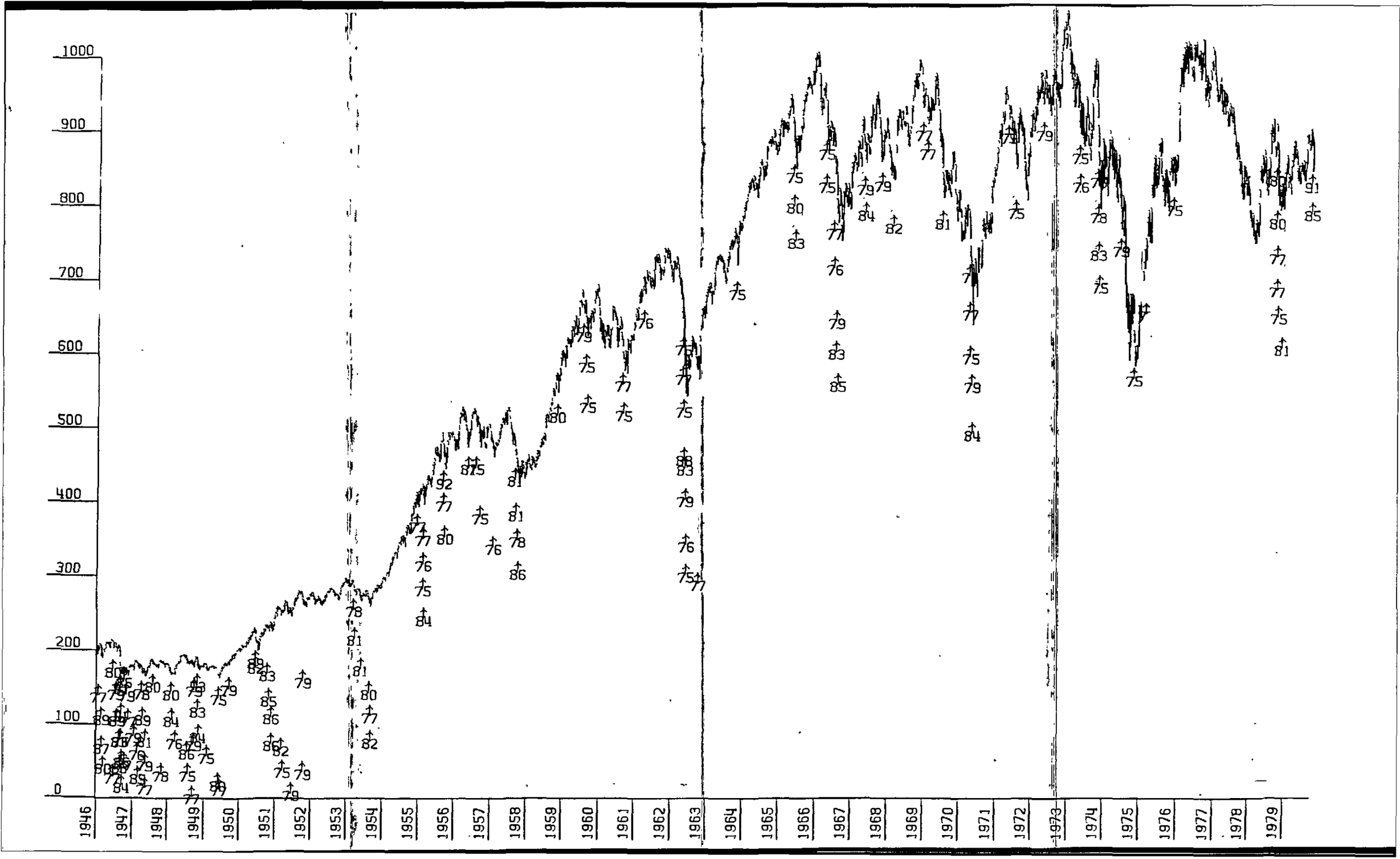
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