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TABELL'S MARKET LETTER

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The extraordinary short-term upswing which featured the first month of the decade of the 1980's continued last week with an 11-point rally to a new closing high on the Dow on Wednesday followed by further strength through mid-day Thursday. In an attempt to draw attention to those aspects of the stock market which were less than immediately obvious, we used this space last week to suggest that breadth characteristics on this advance had fallen somewhat short of normal expectations. This remains the case, and it will be a factor that bears watching. We would, however, be failing our duty to our readers were we not to draw attention to the positive aspects of what appears to be going on at the moment.

As an introduction to this discussion, we are compelled, once more, to drag out, with due apologies, the following quotation.

"The equity market from 1942 until 1966 was buoyed by a secular uptrend advancing at the rate of about 9% a year on the Dow. True,there were bull markets and bear markets within the framework of that uptrend, but the bull markets were long and dynamic and the bear markets, although painful, short and quickly recovered. There is real evidence, at the moment however, that the secular uptrend is no longer with us. Indeed, computed from 1966, the slope of the DJIA has been virtually zero. The most statistically accurate description of the market on average for the past five years is that it is a wide, flat trading channel."

That comment appeared in this space nine years and one week ago, and we have probably resurrected it a half-a-dozen times since. It was originally used, in January, 1971, to indicate that the then-existing technical pattern suggested a continuation of the trading range which had characterized the half-dozen previous years. That trading range, with the Dow spending most of its time between 800 and 900 despite occasional excursions in either direction, remained in effect for the entire remainder of the decade, an eventuality we did not necessarily foresee when we first drew attention to it. Although there have been sporadic occasions, in 1973 and 1976 on the upside and in 1974 on the downside, when it looked as if the trading range might have been decisively penetrated, no attempt over the entire ten years just past has followed through. It is for this reason that the current rally, from a technical point of view, holds promise, for, as we noted last week, it presents at least the possibility of the end of that secular trading range and the emergence of a new secular uptrend, an uptrend transcending simple bull and bear markets.

The significance of the January rally is that it constitutes what could be the initial link in a yet-to-be-forged chain of evidence of stock market strength. The Dow-Jones Industrial Average, following its decline from last fall, formed a rather clear cut and impressive base formation in the area between 798 and 850. The recent breakout from that formation suggests an upside target of 920 which would move it above its best level of 1979 and its peak of 907 in September, 1978 (The pattern for the Standard & Poors 500 and other broad indices is roughly similar with a bit more upward bias. Last fall's high in the 500 exceeded the 1978 high by an appreciable amount, and new peaks have already been achieved on the recent rally. The pattern, however, is otherwise similar.).

If one accepts the plausibility of a rally to the mid-900's, it is then necessary to envision precisely where that would leave us. The market would then, in terms of the Dow as well as most other widely-used indicators, have moved decisively above all the peaks that have been established since the bear market of 1976-78. The Dow has, during almost all of that period, traded within the range of 800-900 mentioned above. Ability to achieve significantly better levels would almost have to be read as a suggestion that the 2½-year trading range which began in the fall of 1977 constituted a base formation, presaging a new and important upside move.

Now since that base formation occupied 2½ years, its upside implications are, of necessity, impressive. Various upside readings are possible, but the most plausible one on the Dow would be in the middle 1100's. Such a move would complete the third and final link. At the level suggested, the whole decade-and-a-half trading range would be decisively penetrated on the upside. That penetration would, over the long term, suggest still higher levels. In other words, a brand new stock market cycle, one whose shape is yet unclear, could be upon us.

Now all of this depends not only on the completion of the chain of evidence outlined above, but on the continuation of positive technical action as the evidence continues to unfold. In the evolution of such a long term pattern, there are always question marks, some of them, such as potential breadth weakness, which can now be foreseen, others which cannot now be forecast and which may evolve later on. The temptation to think in terms of decades is probably as overdone in the stock market at it is elsewhere, but it seems, as the decade of the 1980's opens, a truly critical juncture for equity prices, is, indeed, being approached.

Dow-Jones Industrials (12:00 PM)	874.32
S & P Composite (12:00 PM)	113.16
Cumulative Index (1/24/80)	834.18

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