TABELL'S MARKET LETTER

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February 15, 1980

As might be expected in a market as volatile as the current one has become, the sustained advance which has characterized 1980 thus far was interrupted by a rather sharp correction which took the Dow down ten points on Thursday and a like amount in early Friday trading. Interestingly enough, the Dow's advance was rebuffed just short of its attaining a new high above its September, 1978 level, which has now been penetrated on an hourly and intraday, but not on a closing, basis. Possible very-short-term downside objectives center around the middle 870's where there is a fair amount of support. A decisive break below 870 at this point would be disappointing and suggest the possibility of a further correction.

One of the facets of the recent stock market which has been noted by just about everyone in the punditry business is the recent advance's lack of breadth. The fact that the rise for 1980 to date has been fueled largely by wide moves in energy, natural resource, and defense issues with large numbers of stocks failing to participate is, by now, almost universally recognized. Most commentators have ascribed a bearish significance to this on the theory, not entirely untrue, that poor breadth is a precursor of market weakness. The trouble with this observation is that it is somewhat superficial. Few writers have actually quantified breadth action and compared it to past periods to see if any significance could be ascertained.

We have made an attempt to do this, and the initial results do, indeed, bear out the superficial observation. There have been very few instances in the past 52 years of stock market history where breadth has been as bad as it has been recently during a market which has advanced as much as this one has. Our basis for comparison is as follows.

The recent rise began from lows reached on January 3, the second trading day of this year. From that day to this Wednesday, the Dow rose 10.18% and the S & P 500, 12.6%, all this taking place over a period of 29 trading days. It is necessary, for the same 29-day period, to quantify market breadth, and as good a measure as any is the simple advance/decline ratio, computed by taking the daily advances, subtracting daily declines, and dividing the result by the number of issues traded. Such a figure can be computed for each of the 29 days in question, and the average ratio for the 29-day period then derived. That figure is 0.05794.

It now becomes a simple task (assuming access to an electronic data bank of stock market history) to look for previous 29-day periods in which the Dow and/or the S & P advanced by amounts comparable to those mentioned above, and the average advance/decline ratio was lower. As we noted above, such periods have been few and far between. One such instance occurred, ominously enough, in the late summer of 1929. We are inclined, frankly, to disregard it, along with a number of similar instances in the period 1931-33. Numerous studies have confirmed to our satisfaction that the volatility of that period makes such statistics irrevelant to the present. There have, however, been three instances in more recent times where a wide advance such as the current one was accompanied by equally desultory breadth. They are perhaps worth citing.

The first was in September-October, 1939, an interesting comparison because of its relationship to war, in this case World War II, and the German invasion of Poland. The sharp rise thus produced topped out just about at that time and was followed by one of the sharpest declines on record at the fall of France in 1940, which, in turn, led to lower prices continuing to the summer of 1942.

The next comparable rise did not occur until July, 1955, and, the aftermath of that one was a sharp break occasioned by the Eisenhower heart attack, followed by a move which took the market to new highs by a fairly significant amount in 1956. More recently, there was a comparable rise in May, 1975. This also was followed by a sharp but temporary break and an ultimate move to new high territory.

The point of all this may be, simply, that there is no point. A phenomenon which has only three analogies in 52 years of market history, with widely varying results in each case, is hardly one on which one can base reliable statistical conclusions. Our own disturbance at recent negative breadth is as great as anyone's, and it is our intention to do further work on the subject along the paths outlined above. In light of the work done thus far, however, we are reluctant to voice knee-jerk pessimistic conclusions.

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Dow-Jones Industrials (12:00 PM)	886.60
S & P Composite (12:00 PM)	115.78
Cumulative Index (2/14/80)	840.69

AWT:sla