TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

February 29, 1980

There can be little doubt now that when the stock market history of 1980 is finally compiled, it will note the beginning of a new market phase somewhere around mid-February, probably starting on February 13, the day the Dow-Jones Industrial Average closed at 903.84 and reached an intraday high of 918.17. On that same day the Standard & Poors 500 attained a high figure above the 120 level. The first six weeks of this year were characterized by a dynamic, if somewhat narrowly-based, rally, which brought most broad-based averages back to new high territory and returned the Dow, at that high mentioned above, to the top of the trading range which had contained it since the summer of 1977. Since that time, the market has trended erratically lower, and enough technical deterioration has now taken place to suggest that the correctionary phase of the past two weeks is probably not yet at an end.

In many ways the stock market story of the past two years has consisted of the Dow-Jones Industrial Average underperforming the market as a whole, and present indications are that the Dow remains subject to this same malaise. Of all of the major indicators, this familiar index seems to have the greatest vulnerability. Most of the February action in the Dow appears to have distributional characteristics, and a top that has now been completed by the recent break below 870 is fairly broad in scope. The DJIA began the year 1979 at a level just above 800 and took almost all of last year to inch its way up to the 900 level last fall. In a few short weeks in October-November, it gave up almost the entire gain. However, it recovered this loss almost as quickly and moved once more above 900 two-and-a-half weeks ago. The top formed now suggests at least the possibility of another return to the lower part of this range. A move all the way down to the 800 level would, at this stage, appear somewhat extreme, but there is at least the possibility that such a level might be approached. The strong suggestion of the current pattern is that the long trading range which characterized the Dow's action since 1977 is, for the time being, not yet over.

Other patterns seem to have considerably less vulnerability. 1980, for the Dow-Jones Transportation Average, consisted of a straight-line move from around 245 to 305. There is nothing in the current picture which would suggest anything more serious than a normal 1/3-1/2 retracement of this move. The former has already taken place; the latter would carry the Transportation Average some 10 points below its current levels.

In the case of Standard & Poors averages, the 500-Stock Composite and the 400-Industrial Index, the tops are more recently formed and suggest a lesser decline. A possible downside target for the 500, now above 112, would be 109, and the 400, currently at 128, could reach the 123 level. Neither of these prospects should cause panic in the streets.

The above projections are, of course, short term, and subject to the normal margin for error that accompanies all short-term forecasts. What is more important is to try to fit the present prospect into a long-term pattern. As far as the broad-based S & P indices are concerned, both appear to be in well-defined major uptrends. There is absoloutely nothing in their patterns to suggest that the current weakness constitutes anything more than a minor correction within those uptrends, and, indeed, were the downside targets mentioned above to be reached, both averages would be on strong support levels. In the case of the Dow, as we suggested above, the present outlook is eminently within the context of the sort of pattern that has characterized that indicator for some three years. In neither case, in other words, does there appear the probability of weakness of more than intermediate-term proportions.

The present outlook moreover, does not appear to be greatly at variance with our own view of the long-term cyclical picture. Readers of this letter will be aware of our espousal of the theory that stocks reached a major, four-year-cycle bottom in March, 1978. That cycle reached its second anniversary this week. We are perfectly willing to admit that this suggests the mature stage of an advancing market cycle. However, markets tend to spend a good deal more than half of a given cycle in an advancing phase. Thus a further attempt at new highs once the short-term weakness has spent itself would still be a normal expectation.

Neither is the current outlook out of line with a normal election-year pattern. Indeed, the January-February strength was a bit unusual in that election-year markets have tended to find themselves subject to irregularity during the first half of the year. It may indeed be this sort of irregularity that is showing itself at present. The significant part of the normal election-year pattern is the tendency toward strength in the second half of the year. A corrective phase at this stage would set the stage for just this sort of eventuality.

In summary, we think the current technical picture raises the possibility of further market weakness over the short term. The more important point, however, is that we see little evidence at this point of any sort of major deterioration.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

Dow-Jones Industrials (12:00 PM)	858.28
S & P Composite (12:00 PM)	112.83
Cumulative Index (2/28/80)	800.76

AWT:sla