

TABELL'S MARKET LETTER

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One of the reasons that a study of the stock market is fascinating is that it is almost always a blend of the new and the old, the unprecedented and the familiar. This week's action constituted a particularly pointed example of this combination. Few, if any, stock market pundits that we are aware of had looked to silver and other commodity prices as a possible catalyst for a collapsing stock market. Yet it turned out to be the collapse of the Hunt brothers silver holdings which produced one of the more fascinating stock market afternoons in recent memory, an afternoon in which the Dow plunged some 16 points in the penultimate hour of trading and gained back some 20 points in the final hour.

If the intervention of precious metal prices into equity trading was a new phenomenon, the effect it produced was an old one. Single-mindedness and massive long positions held on borrowed money are phenomena as old as markets, and the effects they have produced have caused similar consequences over the years. Thus, from a technical point of view, Thursday's trading was straight out of the textbooks, constituting the familiar phenomenon known as a selling climax.

The occurrence of this particular classic example, we must quickly point out, does not necessarily suggest that the stock market saw its absolute low of 729.95 intraday for the Dow on Thursday afternoon. Market history is replete with what are known as multiple-climax low points, and many of them have occurred at levels somewhat higher than those which turned out to be the ultimate low. The first identifiable climax in 1974, for example, took place in August when a 27-point, 6-hour decline was followed by a 12-point, 6-hour rally. This occurred around the 680 level approximately 100 points above the ultimate low. Three similar climaxes followed, including the record one in October in which a 12.2-point, 3-hour decline was followed by a 55-point, 6-hour rally. However, in comparison with recent reversals, it must be noted that Thursday's action appears most similar to those ultimate climaxes of 1974 or to trading action in late November, 1978 when a 28-point, 3-hour drop was followed by a 25-point rally over a 5-hour period.

We have in the past in this letter used the technique of suggesting that an "effective" bottom has been reached. Some thought has gone into the use of this phrase. It is an attempt to recognize that a selling climax represents the start of the process of probing for a bottom and that the process of probing may take a multitude of shapes and forms. Almost invariably the process includes, somewhere along the line, a test of the climactic lows and, as noted above, often a significant penetration of those lows. That penetration is usually temporary, and the ultimate recovery generally proceeds above the climax levels, but the period of uncertainty that normally follows a sharp market decline can produce all manner of results.

This reminder is, we think, applicable in the present instance, since we do not foresee that the uncertainties which have been interjected into the commodity markets plus the chaotic credit market conditions which have accompanied the past six weeks' collapse are going to go away over night. Our feeling, however, based on Thursday's action plus the historically oversold condition which preceded it, is that the preliminary stages of a technical rebuilding process have probably begun.

Part of the reason we do not project significantly lower prices is that, in our view, individual stock patterns do not show the same sort of massive distributional characteristics that were present prior to earlier major declines, such as those of 1968-1970 or 1973-74. In a longer-term sense, most issues have returned to the lower part of what we think will ultimately be regarded as base formation levels, rather than having broken down following long-term up moves, with no visible support.

None of this is to say that the stock market has not suffered severe technical damage over the past six weeks. This is, indeed, the case, and a number of unanswered questions remain which can be resolved only by the future pattern as it emerges. It is, nonetheless, well to remind ourselves that selling climax conditions are a product of panic and uncertainty. It has always been the course of wisdom not to succumb to the sort of atmosphere produced.

ANTHONY W. TABELL
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Dow-Jones Industrials (12:00 PM)	764.08
S & P Composite (12:00 PM)	99.08
Cumulative Index (3/27/80)	660.57

AWT:sla

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