TABELL'S MARKET LETTER

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Every so often, far too seldom in an uncertain world, things turn out as they are supposed to; the good guys win, the hero marries the heroine, and everyone lives happily ever after. This satisfying arrangement tends to be the exception rather than the rule in the stock market, but, even in the volatile world of finance, events occasionally transpire the way folk wisdom tells us that they should.

The textbooks inform us that formation of a stock market bottom generally follows a particular scenario. The first act of this scenario is a selling climax characterized by a large one-day or intraday loss, heavy volume, and, in terms of prevailing mood, uncertainty and panic. This climactic washout is then supposed to be followed by a relatively dynamic rally which, after a time, loses momentum and peters out. The next act is a further decline, this time more desultory and on reduced volume. Such a decline should return approximately to the area of the original low --- the so-called "test" --- at which point additional demand, again on increasing volume, is supposed to manifest itself.

It is interesting to examine the past four weeks of trading in the light of this description. On March 27, in a panic atmosphere caused by the collapse of silver and other commodities, the Dow reached an hourly low at 3 o'clock of 739.59. Almost all of this loss was recovered in the final hour of trading as volume expanded to 63 million shares, one of the highest levels on record. The rally continued to a close of 785.75 two days later and to 791.55 on April 11. As the rise continued during the first week in April, volume gradually petered out, dropping under 30 million shares on April 3 and 7.

Over the period between April 14 to April 21, the Dow showed consecutive declines with volume reduced still further, as low as 23 million shares on the first day of the decline and never reaching higher than 39 million shares on April 16. By this Monday, the Dow had closed at 759.13, a closing figure actually lower than the close of March 27 and precisely within the range which the climax rally had covered four weeks earlier. Prices had been even lower an hour before the close, but improved somewhat in the final hour of trading.

It is precisely from such a level that, conventional wisdom advises us, demand should materialize, and in the face of total absence of any stimulating news, the market staged its amazing performance of last Tuesday. The Dow wound up 30.72 points which, as the newspapers duly informed us, was terms of points gained, the fifth largest rally in history. Volume expanded to 47,920,000 shares, and prices continued to firm for the remainder of this week. As of this writing, even the Iranian fiasco has shown little effect on this firmness, with prices off only moderately in early Friday trading. For the time being, at least, the textbooks have been vindicated.

A few comments seem called for. The first is that we are taught in grammar school that percentage change is a more accurate way of comparing figures than raw change. Thus, comparing Tuesday's 30-point gain to past rallies overstates its relative significance. The rise was 4.05% in the Dow and 3.46% in the Standard & Poors 500. These figures have been exceeded by six rallies in the Dow and 11 in the 500 in the modern (post-1942) period. In the 1920's and 1930's, however, rallies of this magnitude were fairly common occurrences. There were eighty rallies of better than 4.05% in the Dow between 1926 and 1940, the record, for what it is worth, being 15.34% on March 15, 1933.

If one eliminates the volatile pre-World War II period, however, and looks solely at what has happened since, the comparison is still interesting. Of the six Dow-Jones rallies which bettered Tuesday in terms of percentage advance, five occurred as the initial rally from the climax low of major bottoms in 1957, 1962, 1970, 1974, and 1978. The sixth, November, 1963, was the rebound from the Kennedy assassination low. Here the current market is, in an interesting way, at variance with the past. As noted above, Tuesday's rally must be considered the aftermath of a test rather than an initial climax, that obviously having occurred on March 27. No such rally in the modern era has approached this one in magnitude. The closest approximation would be the rally of June 28, 1962 of 3.79% or the 4.02% rally of October 19, 1974. Both these occurred well after the initial climactic lows had been made.

Finally, although it would be an incredible pessimist would did not view the last month's action as constructive, it is still only a month. Time is required for bases to form, and even at this point, the base so far formed is insufficient to support anything more than moderately higher levels. Furthermore, the success of one test of previous lows does not necessarily suggest the unlikelihood of further tests, and indeed, we would think that something like another test would be necessary to broaden the base so as to indicate worthwhile upside possibilities. In other words, we continue to regard the extension of the base formation period into mid-summer, in accordance with the normal election year pattern, as the most likely course of events. Undoubtedly, somewhere along the line, the market will do something to confuse the current conventional pattern. Nonetheless, action so far is, to say the least, refreshing.

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Dow-Jones Industrials (12:00 PM)	794.97
S & P Composite (12:00 PM)	104.20
Cumulative Index (4/24/80)	741.49

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