# TABELL'S MARKET LETTER

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One of the most important tasks of the market analyst is the development of a forecast, that is some estimate as to how the stock market is most likely to behave in the future. A useful preamble to such a forecast, in many cases, is an analysis of the way in which the market has behaved in the past along with an attempt to set this known behavior within the context of the economic background which went along with it. The object of such an exercise is to find out just how much of that economic background is "built in" to the current level of stock prices. Modern academicians, who theorize about the economic perfection of capital markets, would have us believe that, at any time, all known information is built into a given price level. The technician, needless to say, denies this assumption, but there is no doubt that, at any given time, the stock market reflects a number of assumptions about the current economy. The attempt to detect just what these assumptions might be is often an interesting one.

The market's behavior is, of course, a matter of record. Most recently, that behavior has been not at all bad. We have tried in the last four issues of this letter to reflect the fact that, based on historical precedent, action since March 27 must be viewed at least as an attempt to form a bottom of some importance. This attempt began with the classic intraday selling climax of March 27, continued with the subsequent test of that low on April 21, and was also suggested by extraordinarily good market breadth during just about the entire month of April.

Assuming the success of this bottoming attempt, it will mark the end of the third market correction since the fall of 1978. These three corrections have all had similar characteristics. All were relatively minor to intermediate-term in scope, ranging between 11 percent and 16 percent, declines well below the historic norms associated with major bear markets. All took place rather quickly with only a few weeks between the high and the initial climax low, and all, finally, started from the level of 900, plus or minus a few points, on the Dow-Jones Industrial Average. Before these three market drops, the only identifiable decline of more than short-term proportions was the two-year drop in the averages which took the Dow-Jones Industrials from 1014.79 on September 21, 1976 to 742.12 on February 28, 1978. This decline was of bear market proportions in terms of percentage drop (27% on the DJIA and 19% on the S & P 500), and its 18-month length was not unusual in the light of recent downswings. Nonetheless, it could hardly be considered a broad decline in that, during the period, many stocks advanced in the face of the fall in the averages. In one sense, it has been six years, since 1974, since we have had a classic bear market, defined as an instance in which almost all stocks decline sharply over a protracted period of time.

All of the above, we think, has been taking place against a rather interesting economic background. As examples of that background, it is only necessary to cite three news stories which appeared during the past week. The first of these was the Iranian misadventure, the second was the news of financial difficulties being undergone by a major U.S. bank, and the third was the sharp drop in March by the Commerce Department's composite index of leading economic indicators, marking the continuation of an ongoing decline that has been underway since October, 1978. The stock market's response to all three of these developments was, essentially, to ignore them. Even the weakness which set in late Thursday afternoon, while possibly associated with the last of the three items mentioned above, did not begin until the later part of the day's trading, whereas the news had been a prominent feature of the morning's papers. It is worthwhile asking why this should be so.

The record of stock market responses to "wars and rumors of war" is a mixed one, and there is no particular reason why the market should have declined in the light of what happened in the Persian desert. It seems axiomatic to us, however, that a more technically vulnerable market might well have done so. Those of us familiar with economic history have been trained to regard signs of strain in the banking system as a major concomitant of disaster. The stock market has apparently developed sufficient faith in the viability of the current system so that the emergence of such strains can be shrugged off. The lack of response to increasing evidence of recession can probably be attributed to surfeit. We have been hearing about the impending recession for more than two years now. Surely most of the investment decisions made on the basis of that recession were, in fact, made a long time ago.

One of the attributes of a bear market has always been an almost pathological sensitivity to news that was even remotely bad. In contrast, ignoring bad news often constitutes evidence of underlying strength. Viewed on the surface, we think, it is very difficult to find anything good about the sort of economic news to which we have been recently treated. The market's lack of response to that news is, we think, a factor which must be viewed constructively.

ANTHONY W. TABELL
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| Dow-Jones Industrials (12:00 PM) | 810.07 |
| S & P Composite (12:00 PM) | 105.45 |
| Cumulative Index (5/1/80) | 747.51 |

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