

TABELL'S MARKET LETTER

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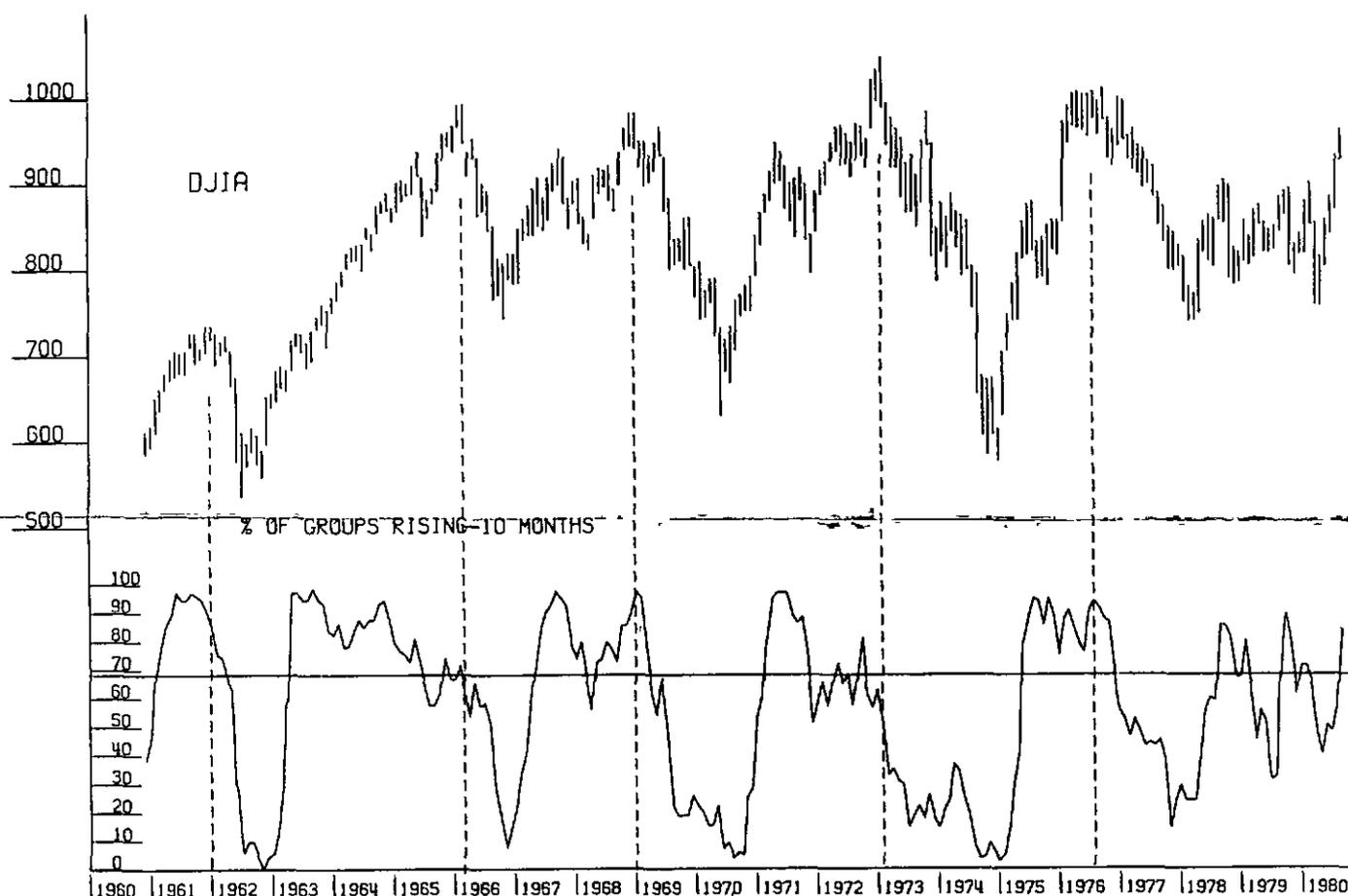
DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC.
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We have been noting the slowdown in market momentum following the sharp rise of spring-summer 1980, and there is a natural tendency to infer from this loss of momentum a degree of downside vulnerability. A close analysis of many momentum indicators, however, fails to support this view. Indeed, many such indicators are behaving as they would normally tend to do in the early to middle stages of a rise. One such device is the Group Participation Index which is simply the percentage of Standard & Poors industry group indices expanding over a ten-month period. The history of this indicator over the past 20 years is shown in the chart below. Major market tops are indicated by the dashed, vertical lines.



The general pattern of behavior for this index is that it tends to rise above 90% during major advances and then begin a decline well in advance of tops in the averages. By the time this decline has passed through 70%, indicated by the horizontal line on the chart, a cautionary signal is indicated. This drop through 70% occurred very shortly after the market peaks of 1961, 1968, and 1976, and considerably in advance of the peaks of 1968 and 1972. In all cases the major portions of the bear markets in question took place after the index had declined through the 70% figure. The indicator's record in the sharp declines of the past couple of years is more mixed. It tended, in general, to show the same sort of action, but coincidentally with market declines rather than in advance of them.

To our mind, the crucial fact about this indicator at the moment is the fact that it has been rising since April. Furthermore, a close analysis of the action of individual groups suggests that such a rise is likely to continue until at least early next spring. At that time, we will be comparing individual indices against their April lows, and every one of the S & P group indices at the moment is above its April low.

In order to suggest vulnerability, the Group Momentum Index must first complete its rise and then begin to decline. As suggested above, this sort of action is highly unlikely at any time prior to mid-1981.

Dow-Jones Industrials (11:00 AM) 959.13
S & P Composite (11:00 AM) 128.75
Cumulative Index (9/18/80) 1016.89

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