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

December 24, 1980

There are a number of factors which, it seems to us, need to be considered in trying to put together a stock-market forecast for 1981. Some of these which are of special interest to the market technician were discussed at length in this space last week. That discussion concerned itself with the fact that two major stock price bottoms could be identified over the past two-and-a-half years, those of March, 1978 and March, 1980. The letter went on to note the fact that, since the major stock-market low of 1974, most broad-based indices had advanced sharply, whereas the Dow, and, to a degree, the S & P 500, had made comparatively little progress. The forecast problem from a purely technical point of view centers around determining the nature of those 1978 and 1980 bottoms in relation to the overall cyclical process.

However, even in a technical market letter such as this one, it is necessary to observe other considerations in arriving at a forecast. Here again, there are a number which seem to have obvious relevance. The first, of course, is interest rates. Twice during 1980, we have witnessed record or near-record short-term interest rate levels, the first time this spring, followed by a recovery and a return to those record levels in recent weeks as the nation's major banks fell all over themselves in an effort to raise the prime. The second downswing was especially demoralizing for the bond market, causing what could be described, at best, as chaos.

A natural corollary to all this is the effect current interest-rate levels may have on business activity in 1981. Certainly, conventional wisdom tells us, any recovery should be slowed down by the current monetary stringency. It is, indeed, not impossible to visualize the reemergence of recessionary forces, the so-called "double dip" that economists were talking about late this fall.

All of this is taking place just prior to the inauguration of a new Presidential adminstration, one with an apparent electoral mandate to moderate the hyperinflation of recent years. While the precise direction that this new administration may take is not yet certain, it is hard to believe that some of the necessary steps are going to be without pain. To this must be coupled the oft-observed and natural tendency of any new regime to administer painful economic medicine early in its term.

In the face of all of this, we are looking, as we noted in the first paragraph, at a market which posted a major low nine months ago and is now within striking distance of a high posted as recently as late last month. We have watched, through all of 1980, a stock market which has, by and large, been willing to ignore the negative factors alluded to above.

With this in mind then, back once more to the technical position. If a cyclical bottom, in the Dow at least, occurred in March, 1978, a peak for that cycle at 1000 in November, 1980 would not be entirely out of the question. However, as we have noted at various times during the year, a further extension of the advance into 1981, before any major peak was reached, would be an equally likely possibility. The pattern on the Dow, moreover, continues to suggest somewhat higher levels.

It can, however, not be gainsaid that, as we progress farther into 1981, a stock-market cycle which is taken to have begun in early 1978 will be moving into what must, on an historical basis, be considered a mature stage. It will be the technician's major task during the year to try to identify the signs of formation of a stock-market peak. It is, indeed, conceivably possible that such signs may already be accumulating, and they would be reinforced by a weak year-end rally, something we will discuss in our next issue.

Nonetheless, in view of a stock market which has been ignoring unfavorable fundamentals all year, we are not yet ready to state that such a peak has already occurred and would instead build a 1981 forecast on the anticipation of further strength, at least during the first half of the year.

Such strength, we think, if it occurs, may well be centered on the basic industrial stocks, notably represented in the Dow-Jones Industrial Average, since it is these stocks which remain relatively unexploited and possess major accumulation bases suggesting the possibility of longer-term higher levels. Strength in these issues could possibly produce a Dow-Jones Industrial Average in the 1200-1300 range.

If the year-end rally does, indeed, follow through and the envisioned strength takes place, the market could then be subject to a correction of some magnitude, the exact extent of which remains, at this stage, unclear. The only interpretation of recent market history that would obviate the need for such a correction would be the assumption of a cycle bottom in March of this year. Such an interpretation would call for continued market strength throughout 1981.

For the purpose of a working forecast, we prefer to remain within the framework outlined above. That framework would anticipate continued market strength during the first part of 1981, followed by some correction or consolidation in the second half. Such a forecast calls, for the time being at least, for a continuation of the positive attitude expressed toward equities by this letter over the past few years.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

Dow-Jones Industrials (2:00 PM)	959.56
S & P Composite (2:00 PM)	135.36
Cumulative Index 12/23/80	1013.13

AWT:ld

WE WISH YOU ALL A HAPPY AND PROSPEROUS NEW YEAR