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

May 8, 1981

Following a by-and-large satisfactory performance which carried through to just a fortnight ago, stock market action suddenly turned a bit disappointing. As of April 27, the Dow-Jones Industrial Average had moved ahead to a new 1981 high of 1024.05. In the seven trading days which followed, it managed to shed some 50 points, once more penetrating the 1000 level and reaching a Tuesday closing low of 972.44. A couple of rally attempts, neither of them very impressive, on Wednesday and Thursday, left the average around that low as of this writing.

The ostensible reason for the past two weeks' weakness has been the behavior of short-term interest rates, and commentators who find it necessary to discover reasons for every market jiggle have once again dragged out this behavior as a rationale for the market's abrupt reversal. There is, of course, an element of justification for this, but it must also be recalled that the relationship between stock-market action and the direction of short rates is a recent one in any case and remains tenuous at best. Bond prices had actually been declining irregularly since mid-January when the Dow-Jones 20-Bond Average, now 58.44, was at 65.78, and prior to that, since June, 1980 when it was 76.61. During both of these declining periods, the stock market turned in a relatively respectable performance. This remained the case until two weeks ago, when the dispute between monetarist economists and the Federal Reserve once again surfaced and led to renewed warnings of financial chaos, warnings which have been fairly familiar fare for over a year.

From a technical point of view, the stock-market weakness has altered the picture, albeit not by all that much. It is very seldom, as we continuously remind our readers, that short-term action, in and of itself, changes market perspective. It tends to be rather, a series of short-term rallies and declines, together with the market's behavior on those swings, which produces changes in the technical outlook. Coincidentally, we discussed the market last week in terms of the major and intermediate trend channels which have been in effect since March, 1980 and December, 1980, respectively. At current lows, the Dow has returned to the bottom of the intermediate-trend channel. It is also close to the bottom part of the major-trend channel. Quite obviously, the ability to hold approximately around current levels would leave both channels intact and would have to be construed bullishly.

Technical patterns for the averages suggest that such might be the case, although further very-short-term weakness remains at least a possibility. With the 990 low which has contained the market since March now decisively broken, it is possible to read downside objectives in the Dow in the 950-935 area. A comparable objective for the S & P 500 would be 128. Attainment of either of these downside objectives, especially if followed by a worthwhile rebound, would not significantly violate the uptrend channels mentioned above.

The only sort of development which would call market action seriously into question would be violation of the lows of last fall, moves below 900 on the Dow or 122 on the S & P Composite. There appear to be very few individual stock patterns at the moment which suggest that sort of weakness. As we have noted in the past, the only market area where serious technical vulnerability exists is in the energy stocks, and even these issues have moved down sufficiently so that a short-term rally would not be surprising. Some small clouds have, indeed, appeared on the stock market sky, but, it seems to us, they would have to darken considerably before a serious market storm could be predicted.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

Dow-Jones Industrials (12:00 PM)	977.49
S & P Composite (12:00 PM)	131.89
Cumulative Index (5/7/81)	1121.53

AWT:sla