TABELL'S MARKET LETTER

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September 25, 1981

Most recent issues of this letter have commented on the rather disappointing lack of technical evidence that the bear market which began last April is approaching its nadir. Suffice it to say that no such evidence materialized in last week's trading, thus permitting us to go on to a discussion of a few other topics.

It is probably scant comfort, but, in one sense at least, the 1981 weakness is, so far, not all that unusual. Many of the reasons being advanced for the market decline center, rightly or wrongly, around the uncertainties which have been created as a by-product of the new Reagan economic program. The emergence of such uncertainties, along with consequent stock-market disarray, *however, is eminently consistent with past history. The market is currently down a bit over nine* percent from its level just prior to the election, and, as we demonstrated in this space two weeks prior to that election, this performance is not atypical of the 20 years following presidential elections since 1900. The market has been down by an amount greater than nine percent in eight of these years and has been lower or essentially unchanged in eleven. The average performance over one-year periods following elections is significantly lower than the average for all years, and there is an established tendency for the market to do less well whan a new party is installed in the White House. Since the Reagan ascendency has produced economic policy changes perhaps more radical than previous shifts of the party in power, it is not surprising, except perhaps to certain Senators, that the market's response to these shifts should be accentuated.

The most unusual condition accompanying the present economic climate is obviously the record-high level of interest rates. It is of course possible to view these levels as an opportunity as well as a depressant. It is certainly an arguable premise that bonds, at their current bizarre prices, offer the possibility of an unprecendently generous return. Viewed solely in terms of its current level, in comparison with historical figures, the long bond market can certainly be said at present to offer one of the more interesting opportunities on the present financial scene.

We of course cautioned in this space just recently against viewing the price of any financial asset solely in terms of its level. We suspect that part of the present trouble in the bond market is that many participants have learned this lesson the hard way in the past few years. They may indeed have learned it too well. Many bond-market investors appear only to be aware that that market's direction has been due southeast for all too many years and that supposedly safe bond investments have demonstrated a disquieting tendency to produce not safety, but substantial capital losses. This realization may explain the fact that current bond offerings find few takers, despite the prospect that their return, by historical standards, must be considered almost profligate.

If the current level of bond prices accomplishes anything, it may be the laying-to-rest of the rather simplistic notion that bond yields consist of some theoretical "real" interest rate plus a premium for anticipated inflation. The market pricing of bonds just as that of stocks is, we suspect, a great deal more complicated than that. A major factor, just as it is in stocks, is probably investor confidence, and the only way we have discovered of tracing that elusive factor is via technical analysis. In this sort of environment it is probably no accident that, in more rarified investment circles, interest in technical analysis as applied to bonds has been growing by leaps and bounds. *We suspect this will be an ongoing trend, regardless of what the bond market may do in the future.*

As we noted above, it is quite possible to make a bullish case for bonds at current levels. There is only one trouble with this contention. Based on the record, if bond prices are to do better over the next year or so, the correct investment course is to buy -- not bonds but stocks. Of the 452 months since 1944, 193 ended with bonds higher than they had been a year before. However, of these 193 months, stocks were also up over the same one-year period in 154 of them and down in only 39. In 139 of these 154 months stocks did better than bonds. Indeed the average change in the Dow Jones Industrial Average for all 12-month periods in which bonds were up was 11.2%, which is almost twice the average change in this century for all one-year periods. Indeed, in the periods in which both bonds and stocks rose, the average change in the Dow-Jones-Industrials was almost 8½ times as great as the change in the Dow-Jones Bond Averages. In this sense, at least, the obsession with lower interest rates as a necessary precursor to the end of the stock price decline makes some sense. An improving bond market, if one can be foreseen, would be one of the best arguments for the approach of a stock market bottom.

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AWT:rs

Dow-Jones Industrials (12:00 p.m.)	825.82
S & P Composite (12:00 p.m.)	113.37
Cumulative Index (9/24/81)	1097.89