TABELL'S MARKET LETTER

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We have spent our time, in the last few issues of this letter, taking a somewhat jaundiced view of the stock market. That view is based on the proposition that the major problem facing the portfolio manager today can be reduced to a rather simple set of alternatives; (a) either the stock market recorded a major bear-market low on September 25, 1981, or (b) it didn't. Our own assumption, for the moment, remains that alternative (b) is more likely to be the correct one.

The centrality of this set of alternatives is, we think, axiomatic. If a major bear market remains underway, the dangers to capital preservation are obvious. On the other hand, it can be amply demonstrated that a large portion of the excess return earned by common stocks over the years has come from their performance shortly after major turning points. Thus decisions made at this juncture could well impact portfolio performance for years to come.

The reason we find ourselves discussing major turning points at this particular time stems from a background view of the market which can, we think, be adduced from known facts. We are, first of all, inclined to accept the proposition that the so-called four-year cycle in stock prices (It is either more or less than four years depending on how measured.) is a real phenomenon. We think the fact that such a cycle began in March 1978 is the only plausible current interpretation of the cyclic pattern. We think it equally unassailable that the decline of 19.53% in the Dow between April and September of this year constitutes part (or all) of the declining phase of that cycle. Once the cycle has run its course, the obvious aftermath will be the next major bull market. We thus arrive squarely at the issue suggested above. Was September 25 a cycle bottom?

Here, cycle theory itself is of precious little help to us. Cycles, be it remembered, are measured from low to low and the last low can now be assumed to be March 6, 1978. Nine hundred trading days intervened between that date and September 25 of this year. As we pointed out in this space two weeks ago, this 900-day length would be perfectly consistent with the two shortest of the seven cycles that have occurred in recent market history. The other five cycles would suggest that a September 25 low is premature, perhaps by as much as six months to a year.

We venture now into uncertain waters, since we are thus forced to determine whether market behavior around the time of the September 25 low was consistent with that observed at past major market bottoms. We came to the conclusion at the time and are, reluctantly, forced to hold to it, that such is not the case. In terms of breadth there have been four major upside days since October, the best one being Monday of this week when 66% of all issues traded advanced. The early stages of all seven major prior advances have included at least one day on which 70% of all issues advanced, and, in most cases, 80% advancing days have occurred. Nor has the volume normally associated with selling climaxes taken place. Monday's trading, again, produced 1.41 times average volume as measured over the previous 25 days. A figure between 1.5 and 2 plus has been more typical of major reversal points.

None of this is to argue that the market has not behaved well in the past month or to assert that it cannot rally from here. Indeed we have been trying to demonstrate in our last few issues the fact that behavior to date -- or even behavior to date extended by a fairly meaningful rally --- would not be inconsistent with recent bear cycles. The question of the short/intermediate course of the market is one which we view as, so far, being unanswered. Crucial at the moment would be the ability to reach 880 in terms of the Dow. A base of some proportions exists between the September bottom and that figure, and the ability to break above 880 would suggest an advance to somewhere in the 920-930 range. Unfortunately such an advance would not take the market to a level significantly different from where it now finds itself, and it would move the major indices into areas of heavy overhead supply while just about exhausting the upside potential which now seems to exist.

We continue, therefore, to operate on the assumption that the market story has not been completely told by the low chalked up last September. We emphasized above that we feel only that this assumption is the best possible one at this time. Further broadening of a potential base pattern together with future successful testing of the September low or, alternatively, future downside action culminating in a more recognizable selling climax could drastically alter our view of the investment odds. For the time being those odds, it seems to us, remain unfavorable.

AWT:rs

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DELAFIELD, HARVEY, TABELL

Dow-Jones Industrials (12:00 p.m.)	855.31
S & P Composite (12:00 p.m.)	123.11
Cumulative Index (11/5/81)	1099.68