

TABELL'S MARKET LETTER

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For some years now, we have studied the familiar seasonal tendency of the stock market to stage a year-end rally, and it has been the custom of this letter to point out some of the conclusions that can be derived from a study of this phenomenon. Our original study, going back to when the Dow-Jones Industrial Average first was computed in 1897, indicated that such a rally, however miniscule, invariably had taken place. However, two recent periods, 1976-77 and 1977-78, provided exceptions, with the DJIA, in each case, reaching its high for the year on the first day of January. The last three years have seen the resumption of the usual year-end rally pattern. The following facts about the year-end rally may be noted.

1. The year-end rally often has been of great magnitude, occasionally continuing through the entire subsequent year without a 5% correction being recorded. It frequently has continued with only minor interruptions for as long as six months into the new year. In 1961, 1963, 1964, 1967, 1971, 1975, and 1976, the rally continued into February, March, or beyond. However, on other occasions, it has been of only a few day's duration, reaching a top extremely early. Thus, in 1960, 1970, 1973, and 1974, the rally reached a peak by the first week in January, and, as noted above, the 1976 and 1977 year-end rallies failed entirely to carry into January.
2. There has been a persistent tendency for the rally to begin early in years when the market has been up, and late in years when the market has been down. In recent upward years, 1967, 1975, 1979, and 1980 are examples, the rally commenced from early December. In recent downward years, 1962, 1966, 1969, and 1977, the rally began late in the year. This year was a down year, and the December low was probably made on December 29th. ←
3. The important thing to watch in connection with the market action in the early months of the new year is the aforementioned figure, the previous December low. This low has been broken in 49 years out of the past 81. However, in 28 of these 49 cases, it was broken in January and February. For example, in 1970, 1973, 1977, and 1978, the December low was broken by early January. Since 1937, it has never been broken later than mid-March with three exceptions, 1965, 1974, and this year, when it was finally penetrated in August. Thus, if the market is able to hold above its December low for the first 2½ months of the year, chances become good that this low will not be broken.
4. In years when the December low has been broken, the subsequent trend has been downwards two-thirds of the time. 1962, 1966, 1969, 1973, 1974, and 1977 are typical cases. 1965 and 1978, along with 1980, as noted above, were exceptions.
5. The magnitude of the rally is an important clue as to the year's market trend. For example, an advance of 10% or more from the December low has been followed by an upward or neutral market in 35 of the 47 years that such an advance has occurred. An advance of less than 10% or more from the December low before an identifiable correction takes place has been followed by a downward market in 28 of the 39 years. In 1963, 1964, 1971, and 1980, the year-end rally approximated 10%, and in 1972, it was 17%. In 1962, 1970, 1973, and 1977, for example, it was less than this figure. This year, the rule failed to hold, with a rally of just over 10% being followed by a downward year.
6. The length of time in which the rally continues into the new year is important. For example, in 23 years, the rally continued into March or later. In 19 of these 23 years, the eventual trend was upward. In 1964, 1972, 1975, and 1976, the year-end rally continued into March and in 1961, 1967, 1971, and 1980, into February.

This year, therefore, the December low, probably 868.25 on Tuesday, will become an important reference point to watch. If the Dow is able to advance from this low by 10%, roughly to the 960 level, or continue a rally into February or March, the historical implications would be bullish.

AWT:rs

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Dow-Jones Industrials	873.10
S & P Composite	122.30
Cumulative Index (12/29/81)	1100.72

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