

# TABELL'S MARKET LETTER

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A month ago we occupied this space with a study of the action of major market indicators using what is known as a reference cycle approach. This approach compared the action of those indicators following the September 25, 1981 low, the low scored 75 trading days ago which remains, to date, unbroken, with market action at past known major low points --- the low points of each of the eight major market cycles since 1949. The purpose of the exercise, of course, was to determine whether or not market action was consistent with the thesis that an important low was being formed.

When we first did the study on December 11, we concluded that there were precious few similarities between market action in 1981 and the sort of thing that had taken place at past major bottoms. Updating that study, with 75 days of market action since September 25 now available to us, reinforces the previous conclusion. It must be regrettably noted that there is almost nothing in the current market pattern historically consistent with the formation of past major reversals.

The table below, a current update of the previous one, shows the 75-day high figure reached for each of four market indicators as a percentage of the prior market low. As can be seen, the Dow has acted notably worse in the first 75 days than on any of the previous major bottoms, and, at most past important lows, the S & P 500 has performed notably better than it has in the present instance. As the fourth column shows, volume expansion in most prior cases was considerably greater than it has been to date. The most notable divergence between the present market and past low points, however, is seen in the action of the advance-decline line. As the table clearly suggests, it moved up a great deal more following past cycle bottoms than it did following September 25. What the table does not show is that, after making its high, the A-D line has recently moved downward and is currently testing its September 25 low. This action is totally inconsistent with the manner in which it behaved at past major low points.

Date of Market Low	High in First 75 Days As Percentage of Market Low			
	D J I A	S & P 500	Adv-Dec Line	Volume
Jun 13 1949	113.42	116.16	129.63	126.43
Sep 14 1953	110.98	110.04	117.36	137.73
Oct 22 1957	109.26	108.93	132.26	109.36
Jun 26 1962	114.98	114.26	136.01	100.18
Oct 7 1966	113.89	118.18	142.53	150.95
May 26 1970	122.50	119.84	127.40	111.76
Dec 6 1974	136.17	132.30	157.98	168.91
Feb 28 1978	116.76	115.26	122.96	211.40
Sep 25 1981	108.34	112.04	113.29	112.28

If current market action is unlike that at major lows, what sort of historical period does it, in fact recall? It is, unfortunately, all too easy to find a significant parallel. Market behavior since September has been strikingly similar to that following December 5, 1973. On that date, the Dow had completed an 11-month, 25% decline from 1051.70 to 788.31. This is roughly analogous to the five-month 20% drop posted in April-September, 1981. The December, 1973 low was to hold for six months through the summer of 1974. During those six months there were four separate advances and retracements of 5% or more, all of which failed to penetrate the December 5 low, just as two advance-retracement cycles have failed to penetrate the low made on September 25. Two of the 1973-4 rallying phases took the Dow slightly higher percentagewise than it has moved up so far. However, just as in the current case, volume totally failed to expand, and -- most notably -- breadth peaked out and declined to its previous low in just about the same timeframe which it demonstrated since September.

As we all know from history, the aftermath of December, 1973 was a full-scale, bear-market leg which took the DJIA down from a trading-range high of 891.66 to an ultimate low of 577.60, a further 35% decline. It should be noted that we do not foresee a drop of anything like this magnitude in the present case. However, the similarities between the present period and that past one seem to be real and disturbing

Dow-Jones Industrials (12:00 p.m.) 845.89  
S & P Composite (12:00 p.m.) 115.70  
Cumulative Index (1/21/82) 1068.42

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