# TABELL'S MARKET LETTER

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The last two issues of this letter have been devoted, as our readers are aware, to a discussion of the stock market's major four-year cycle pattern. It is impossible, in the Spring of 1982, to discuss this pattern without making a reasonably bullish case. As we pointed out a couple of weeks ago, the current cycle had, at the low for the Dow-Jones Industrial Average scored in March of this year, run for exactly 48 months measured from the previous low in March, 1978. We indicated at the time that the entire historical experience of this century suggests that the cycle is highly unlikely to run any longer than 55 months, which would mean a major low's being achieved no later than this Fall. In our study of last week, setting out the data for the 23 cycles which had occured in this century, we made the point that the assumption of a bottom's already having occured in March would be highly consistent with all of past market history.

While we were in the process of delivering this discourse, the market turned down in the first decline of any magnitude that had been posted since the March low. After reaching a peak of 869.20 on May 7, the Dow has now declined 4.2% over nine trading days reaching a closing figure of 832.48 on Thursday. That the advance should have been hurled back at around the 870 level is, under the circumstances, hardly surprising. Most indices were, at that point, confronting fairly heavy overhead supply from their trading ranges of last Winter. Moreover, as we have been suggesting, the base-building process so far has been insufficient to suggest that a major advance is now immediately in the works. Had the rally continued for much longer and broken out above 895 on the Dow, such an advance would have become an immediate possibility. This is a phase, we think, that the market is not yet ready for, and it is thus logical that the reversal occurred where it did.

Nonetheless, in our view, underlying technical improvement continues. Ultimately, with the wisdom of 20/20 hindsight, we will know whether the low of the bear market which began in November, 1980-April, 1981 was scored on March 8, 1982 or at some later date during the Summer or Fall of 1982. We can best describe the market picture at the moment by suggesting that that question has become more or less academic. Back last Fall, with the bear market in full swing and with large numbers of stocks having significantly lower objectives, the possibility of significant further downside risk was one that had to be taken into account. With more and more downside objectives having been reached and with significant base building having taken place (indeed, with upside breakouts from fully formed bases having already taken place in a number of instances), it is possible to suggest that downside exposure, in a well-chosen portfolio, is, at this point, limited. Whether March 8 was the low remains an unanswered question, and we refuse, at this stage, to hazard a guess on it. The important point is that whatever low is made will not, we think, be all that different from the low of 795.47 chalked up on March 8, which, in turn, means it will not be that different from the present figure which is a bare 37 points higher.

The technical pattern as it now exists, does not, indeed, suggest a low below that of March, most plausible downside objectives centering around the 820-810 area for the Dow and around 112 for the S & P 500. This should not be taken to be the final word on the subject, however, since it is entirely possible that the short-term top pattern which has formed over the past couple of weeks could further broaden and suggest somewhat lower targets. The crucial question is what action should be taken when and if such lower prices present themselves.

As our readers are aware, this letter has advocated a defensive posture over approximately the last 9-10 months. During that time, the cycle has moved inexorably ahead, and, more recently, tentative technical improvement in individual stocks has taken place. Market leadership has emerged quite clearly in the disinflation, consumer-non-durable sector of the market, and in this sector a fairly significant number of potentially attractive technical patterns are present. The next bull market may well not have begun, but it is not too early to start thinking about it. It will be especially important to think about it if continued disillusionment with the short-term economic picture should produce a decline of climactic proportions. Were this to occur, almost all the underpinnings for the next advance would be firmly in place.

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| Dow-Jones Industrials (12:00 p.m.) | 834.47 |
| S & P Composite (12:00 p.m.) | 114.76 |
| Cumulative Index (5/20/82) | 1131.87 |