TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
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One of the hazards with which one learns to come to terms after a quarter-century of writing about the stock market is that it is no respecter of scheduled vacations. We find ourselves not too terribly surprised, therefore, to find the hubbub at Broad and Wall Streets this week made a sufficient din to penetrate the serenity of Squam Lake, New Hampshire. Not for the first time, then, we find ourselves taking a few moments of vacation time to produce some commentary on what seems to be going on at home.

In one sense, there did exist an element of surprise in Tuesday and Wednesday's eruption, since it appeared, as of the last week at least, we could not have picked a more appropriate time for a short holiday. For the fourth time in a period of just under a year, a tepid rally attempt had fizzled in mid-July and the widely-followed stock market averages had once more drifted to new lows, down by typical bear market dimensions of some 25% from highs scored 16-22 months ago. Unlike other bear markets, however, there had not emerged since the first of the four lows took place last September, any of the frenetic downside action, the same evidence, that might have been expected as a prelude to the upside explosion which took place this week. In this sense, at least, the emergence of the rally precisely in the third week of August, 1982, came as a bolt out of the blue.

It was, on the other hand, overdue. We have been boring our readers for some six months now trying to think of new ways to say in this space that we thought the market oversold. We coupled these observations with the fact that cycle theory strongly called for a bottom of some importance to occur at some stage no later than the latter part of 1982. All that was missing throughout this entire period was any sort of climactic evidence.

By this point, the reader will not doubt have gathered that we see this evidence as having been provided this week. This is, in fact, the case. The most widely-held statistic was the record-setting 38.81 points by which the Dow advanced on Tuesday. It is, of course, obvious to elementary school children that such figures, to have meaning, must be stated in terms of percentages. Even by this standard, the results were impressive. The 4.90% advance was the second best for the post-World-War II period, exceeded only by a better than 5% up move on May 27, 1970. What is more important is that, over the past 35 years, advances of this approximate magnitude have invariably been associated with major cycle bottoms. Also required for the reversal evidence, as we have long pointed out in this space, are extraordinary breadth and volume statistics. Both emerged this week. Tuesday's 1564 advancing stocks constituted 81% of issues traded. Once again, with a single exception, this advancing percentage has been associated with the beginning of important upswings.

Concerning volume little needs to be said. 100 million, like one thousand on the Dow, is another one of those round figures that assumes inflated importance based solely on its number of digits. Indeed, it is quite obvious to anyone who has studied trading patterns, that it was only a matter of time that this threshhold would be exceeded. The threshhold was not exceeded. It was shattered, Wednesday's figure being 43% above the former record. More importantly, the figure was well over twice the recent average, the usual litmus test for major reversal volume. All of the above factors remain true, incidentally, despite the wild gyrations and assorted rumors that are welling about as this is written.

As we have always done, writing at similar market junctures in the past, we duly noted the caveats. A phrase we are fond of dragging out at such times is "effective bottom", and we think such an occurrence is likey to have occurred a week ago as evidenced by this week's action. Bottoms have, in the past, however, assumed varying shapes and patterns. In May, 1970, for example, the climactic action of May 26 marked the market's actual low and a minor test attempt in July was all that followed. May, 1962 and October, 1966, however, were followed by full-scale tests both of which involved new lows. It is, therefore, far too early a stage to trumpet confidently that 776.92 on October 12 was the low of the 1981-82 bear market, or even that the majority of stocks have seen their lows, even though this latter, at least, may well be the case. Another mildly contrary factor is that August tends to be a less-than-propitious month for such an occurrence. Indeed, a study of all major cycle bottoms since 1897 shows that in no case has the actual low occurred in August.

A final note of warning. Pay no attention to the excuses. The factor widely cited as the reason for the rally was lower interest rates or, more properly, forecasted lower interest rates. This, of course, is nonsense. The market went up quite simply because for some months now, it has been in a technical position to do so. Interest rate forecasts have come and gone throughout that period with little or no effect. With the benefit of 20-20 hindsight, we now know that the oversold condition had reached a sufficient extreme this week for forecast of lower rates to have a tinder box effect. This is important. We think the next major move in the stock market is likely to be upwards. This may or may not be accompanied by lower-long rates. If the failure of lower rates to materialize causes skepticism regarding the ongoing stock rally, so much the better.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

AWT:rs

Dow-Jones Industrials (12:00 p.m.)	847.03
S & P Composite (12:00 p.m.)	110.31
Cumulative Index (8/19/82)	1102.57