TABELL'S MARKET LETTER

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As was eminently predictable, the financial press went bananas on Thursday, heralding the fact that the Dow-Jones Industrials had achieved a new all-time high, exceeding the closing (and also the hourly and intraday) figure for January 11, 1973. We were also duly informed that, in the process, the Dow chalked up its largest (points not percentage) gain on record, moving ahead 43.41 points on Wednesday. While these pieces of information may have the salutary effect of providing filler for newspaper space, they are, as far as the investor is concerned, about as close to useless as it is possible to get. That investor remains faced with his perennial problem. What, given this action, becomes the proper attitude toward the stock market?

As an aid in this dilemma, two basic principles of technical analysis emerge as relevant. They are as follows:

1. Great stock-market strength is usually a precursor --- not of imminent weakness --- but of still further strength.
2. Major market cycles, once underway, tend to persist for long periods of time.

We discussed some of the figures leading to the first conclusion in our letter of October 1. At that time, we cited the fact that bull markets tend to be characterized by sharp and volatile take-off rallies which proceed without a correction of as much as 5%. Since then, it has, of course, become obvious that the take-off rally began with the actual low on August 12 (this is not always the case) and has, to date, remained in effect, with a 37.1% advance so far. It has thus exceeded the comparable take-off rally for the last bull market, 1978-1981, which was only 16.8% and, for that matter, the 22% take-off rally of the 1966-1968 bull market. It has, however, chalked up just about the same percentage advance as the 1962 and 1974 take-off rallies (30.3% and 32.5% respectively), and it still falls significantly short of the figures for four other bull markets since World War II, which have seen take-off rallies of as much as 60%. It must also be recalled that such initial rallies tend to be only the first phases of bull markets which, once the initial rallies are complete, continue to proceed significantly higher, albeit at a slower rate with somewhat larger and longer corrections.

As far as time is concerned, fully realizing we are repeating ourselves, it is worthwhile once again to hammer away at some obvious facts of stock-market cycles. The current market cycle, it must be remembered, is still just 12 weeks old. Typical cycles, we remind our readers once again, last just under four years from low to low, based on the record of 23 such completed cycles since 1896. This suggests that, if the current cycle conforms to the average, the next major stock-market low will not be seen until May, 1986. There are, furthermore, only three exceptions in the 23 past instances to the general rule that such cycles spend at least 50% of their time advancing, indeed, on average, some 60%. Again, ability to achieve this average in the present case would produce a 27-month advance, and the target date for the next major high would be December, 1984.

Now despite the fact that the above two precepts are clearly implied by an historical record stretching back almost a century, most investors, we think, intuitively feel that somehow it will all be different this time. Undoubtedly most investors felt the same way at comparable stages of the 23 previous cycles, which is, of course, why the cycles tend to manifest themselves in the first place. There is, of course, little doubt that part of the steepness of the recent rise can be attributed, not to secular trend, but to a recent increase in volatility. This volatility will, no doubt, lead to some short, sharp corrections as it did a week ago Monday and this Thursday afternoon. Such corrections will undoubtedly continue to engender the feeling that the whole process may be over, an event which, as we noted, is unlikely to occur for another two years.

It is possible to make some projections regarding the extent of this particular take-off rally although such projections are far less important than recognition of the rally for what it is. A logical, medium-term upside target for the Dow would be approximately 1130, following which it would be logical to expect a more protracted, although certainly by no means final, market correction. It is possible to make such a guess on the assumption that what has happened since August of this year constitutes the initial advance in, almost certainly, a cycle turn and, very possibly, a super-cycle turn. If this is the case, according to the Elliott Wave Principle and other models, such an advance should take place in five waves, three advances interspersed with two corrections. It is easy to demonstrate that four such waves have occured so far, the first from August 12 (776.92) to September 15 (930.46), the second to September 30 (896.25), the third to October 21 (1036.98), and the fourth to October 28 (990.99). The fifth, it is logical to surmise, is currently under way from that level.

Now if the above projections holds true, and it is, of course, subject to modification by events, even the correction following this rally should bottom at levels somewhat higher than present ones. The clear argument continues to be in favor of a fully-invested position.

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Dow-Jones Industrials (12:00 p.m.)	1052.61
S & P Composite (12:00 p.m.)	142.18
Cumulative Index (11/4/82)	1473.74