TABELL'S MARKET LETTER

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Being second-generation technicians, we possess, we hope, some appreciation of the history of our profession. That history is, in fact, rather a long one, the first recorded instance of the use of technical analysis being the charting of the price of tulip bulbs in Holland during the 1630's. Many technical devices, the Dow Theory for example, go back to the turn of the century and there exists ample evidence of the application of technical work to American securities prices during the early years of this century.

Many of the early texts on the subject dating back to that period are still extant, and they make interesting reading today. Most advocate a rather simplistic approach to the problems of stock-price forecasting. They outline a process of accumulation of charted data from the daily stock-price tables, followed by an attempt to draw meaningful conclusions from the "pictures" that thus unfold. One theme that appears rather early in this extensive literature is a paramount concern regarding long periods of sideways price movement, such periods being variously described as "congestion areas", "trading ranges", and, later, as "bases" and "tops". The theory, in its simplest form states that a move out of such a range in one direction or another, tends to lead to a more extended move in the direction of that "breakout".

It never was quite that simple, although many of the classic texts read as if their writers felt they had stumbled upon revealed wisdom. Furthermore, with the advent of tools such as the computer and the wide-spread application of numerical analysis to the study of time series, technical analysis has become infinitely more complicated. In our view, however, the early writers were indeed on to something. It would be as senseless to dismiss their work as mere historical artifact as it would be to suggest that the planets no longer revolve around the sun because the equipment Copernicus used to discover this principle is now obsolete.

All of which brings us to the present case. The Dow Jones Industrials reached a bull-market high of 1065.49 on November 3, subsequently declined to 990.99 on November 23, rose to 1056.94 on December 7, dropped to 990.25 on December 16, and reached a peak of 1070.55 on December 27. Thursday's close saw a new high posted by a minor fraction, and this gain is being modestly extended at this writing. What we have here, in short, is a trading range of precisely the sort beloved by the ancients, and we do not think it old-fashioned to state that this trading range constitutes the most salient factor in technical analysis of the current stock market.

The problem at the moment is exactly the same as the one faced by the early chartists, i.e., whether or not this week's action constitutes a true breakout from that range. We think a good case can be made that such is the case. For one thing, the short amount of time which has elapsed since the August lows strongly suggests that we remain in the relatively early stages of what should be a long upward cycle. If this is the case, the lateral trading range of the past two months should logically be viewed as a consolidation area, necessary after the steepness of the August-November rise and simply part of an eventual orderly progression toward higher prices. Furthermore, the formation seems to have more of the characteristics of a base than a top. The low around 990 has been thrice tested and a good deal more work appears to have taken place around the bottom of the range than around its upper levels.

The market's internal action during the trading range, moreover, suffers only by comparison with that during the sharp rise which proceeded it. Breadth action over the two months has remained consistently positive, with a fair number of advancing stocks even on poor days. The result is that breadth indicators during the period have declined hardly at all. Thursday's 1450 advancing stocks indeed brought most breadth indices to new highs, coincident with the new high posted by the Dow. This lack of divergence between breadth and the averages is the classic manifestation of a bull market underway. Thursday's rally, moreover, was strong enough to produce many of the classic symptoms of a takeoff rally, such rallies being especially reliable indicators of higher prices when they occur, as this one did, within the context of ongoing bull markets.

As we noted above, technical analysis is a great deal more complicated than simply reacting to breakouts from trading ranges, and there remains the possibility that the present one will turn out to be false. Nonetheless, for the myriad of reasons we have been citing in this space since last summer, we think that the current odds favor continued higher equity prices.

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AWT:rs

Dow-Jones Industrials (12:00 p.m.)	1075.15
S & P Composite (12:00 p.m.)	145.60
Cumulative Index (1/6/83)	1577.39