TABELL'S MARKET LETTER

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The resumption of the march to new bull-market highs, a feature of the last two weeks of trading, was not without its redeeming qualities. Particularly impressive was the action of Thursday, October 6, when an 18-point advance in the Dow to a new peak of 1268.80 featured 118 million shares changing hands, the best volume level since last June. Friday's session tacked on another three points, and even the Monday session, where volume dried up to 67 million shares, probably under the influence of the bank holiday, displayed some positive tendencies, as the market sold off sharply in early-morning trading and was able to initiate a convincing mid-day reversal, even to the extent of turning what had been sharply negative breadth early in the day to positive breadth by the closing bell. The session also produced new highs in the S & P 500 and NYSE indices, indicators, which had hitherto been lagging the DJIA. The lack of follow-through over the next three days, particularly Tuesday's 19-point decline, was disappointing but well within the context of recent trading patterns, where most short-term upward moves have required some fairly substantial consolidation.

To report the good news first, we think the market's ability to show upside strength over the past fortnight tends to suggest a reinterpretation of what has been happening over the Summer of 1983. It now becomes at least plausible that this entire process, although the Dow was never down more than 6% at worst, constitutes a correction of intermediate-term proportions and, more importantly, one of sufficient magnitude to lay the groundwork for further assaults on new high territory. Apparently during the three-month period, as upside progress in the averages simply stalled, a rotating correction process in different stocks at different times was sufficient to wring out whatever excess optimism had been built into stock prices as of last Spring. This is particularly exemplified in the action since June in the Over-The-Counter market. The high in the NASDAQ Industrial Index was 408 on June 14, and at that point it had completed an advance of over 130% from its August, 1982 low, better than twice the gains posted by the Dow and the S & P 500. However, the performance of the Index itself really understates what went on over a nine-month period in the frothier areas of OTC trading where 400%-500% gains were as much the rule as the exception. The OTC Index continued to post new lows through yesterday and, as of last night, was down 16%, a drop certainly intermediate-term in scope and, again, one which understated damage to the high flyers, which, over the three months, lost as much as half their value.

We think, in other words, after all this, the uptrend may be ready to resume, but, to turn to the bad news, we are afraid that those who are looking to a resumption of the heady days of last Fall and Spring are in for a disappointment. Technical work suggests the probability of another one of those markets in which the widows and orphans shall inherit the earth. While the glamourous Over-The-Counter sector was being ravaged, the stodgy Dow-Jones Utilities, just to pick a good example of what has been going on, continued to move to new high territory, and most patterns in this industry, together with other relatively defensive industries such as banks, foods, etc., appear to suggest continued higher levels. Aggressive traders, in short, will probably feel uncomfortable with most of the stocks now displaying upside leadership.

As far as the bloodied speculative sector of the list is concerned there will probably be, if any sustained market upswing gets underway, a short-term rebound, but still, we suspect, nothing more than that. It will probably, moreover, be due solely to the inherent volatility of these stocks, rather than any significant change in trend. Second-tier issues have had their patterns sufficiently destroyed so as to make a long period of rebasing necessary and should possess attraction only as trading vehicles for some time to come.

In other words, while the probabilities for a firmer market appear to be distinctly improved, selectivity is likely to become a far more significant factor than was the case in the bull market's earlier, *more robust stage. There remain, meanwhile, a few disturbing factors, notably the breadth divergence* we have been harping on in this space for the past few weeks plus the stalling of the Dow-Jones Transportation Averages at around the 590 level. We have emphasized, however, in discussing the breadth divergence --- and the same thing holds true of the Transport Index's failure to confirm --- that it constitutes no particular reason for immediate bearishness. If the current divergence proves to be the final one of this bull market, an eventuality quite possible but by no means certain, we have demonstrated that such divergences have led the market by anywhere from seven months to two and one-half years. Seven months from September, when the divergence first occurred, takes us into March-April, 1984 at a minimum. By that time the divergence may well have been erased, and we will be in a position to start the clock again. If it has not been erased, some fairly important decisions will have to be made next Spring, but those decisions are hardly germane to the present problem.

That problem, it seems to us, lies in adjusting portfolios to participate in and possibly outperform what may well be a fairly strong market between now and early next year. Even for the most aggressive investor, it seems to us, the watchword in such an adjustment should be quality, for it is quite clearly investment-grade stocks that are at the moment showing the best technical action.

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Dow-Jones Industrials (12:00 p.m.)	1260.57
S & P Composite (12:00 p.m.)	169.62
Cumulative Index (10/13/83)	2038.43