TABELL'S MARKET LETTER

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We have held, for some time, to a market scenario including an important low in the corrective process, which began last Fall, emerging in the May-June period. The weakness necessary to that scenario continued during the past week, the only difficulty being that it emerged in a fashion which has, to date, provided very little confidence regarding its imminent end. Having held for almost three months above the 1130 level, the Dow reached a new low on Monday and continued to post new bottoms through all of the first four sessions of this week. By Thursday it was down 7.01% from a May 2 high of 1186.56.

The major problem, from the technician's point of view was, in essence, the utter torpor of the decline. On 10 of the 16 trading days since the drop started, volume was below the 90-million share level. Declines exceeded advances on 11 of the 16 days, but, even on the worst days, the number of declining issues tended to be in the 1000-1200 range, rather than in the area of 1500 and upwards which might connote a panic rush for the exits. We have, in short, the sort of market that is falling of its own weight --- from a lack of bids rather than aggressive selling. The problem with this sort of action, historically, is that it can go on for quite some period of time, indeed, until such time as climactic action clears the air.

Meanwhile, the process was approaching a fairly crucial stage. That crucial stage, incidentally was not the 1100 level on the Dow, with which that index was flirting at week's end. Our regular readers are aware that we do not share the common journalistic infatuation with round numbers, and we do not think 1100 as such has any particular significance. What was significant was the approach to those limits which have historically catagorized an intermediate-term decline and have tended to differentiate such a decline from a full-scale bear market.

At Thursday's close, the Dow was down over a 123-trading-day period 14.27% from its high of 1287.20, scored on November 29, 1983 following a 15-month, 65% advance. There have been, as we have been pointing out in this space, many intermediate-term declines within the context of past bull markets. Indeed, as we have noted, there has not been a bull market in the modern era that has not included, usually in its mature stages, such a decline. Since the 15 months from August, 1982 to November, 1983 had not witnessed anything resembling such a phenomenon, the weakness of January-February appeared to fit comfortably into this context. The trouble is that, as we approach the range of 14% in amplitude and 120+ days of decline, the historical precedent begins to get thin. The bulk of past intermediate-term drops have been in the 10-12% range. We do have the weakness of January-October, 1960, in which the Dow dropped 17.35% over a period of 205 trading days. Between April, 1971 and November, 1971 there occurred a decline of 16% on the Dow lasting for 146 trading days. We are, however, at the moment, pushing against this sort of threshhold at a time when the market shows no immediate desire to reverse its downtrend.

If we are talking full-scale bear market, the historic threshhold used to define such a phenomenon is 20%, which would take us to somewheres around the 1029 level on the Dow. It does not further increase confidence to realize that most recent bear markets have comfortably exceeded that threshhold. On the other hand, we must confess that we still find it difficult to accept the full-scale bear market theory. It requires us to believe in the onset of such a phenomenon after a 15-month advance, something that has not occurred since 1938, and which, historically, does not tend to occur (although there have been exceptions) during the course of an election year. More important is our own reading of the existing distributional patterns and, while there is no doubt that they exist, they do not to us suggest a magnitude comparable to that which proceeded past cycle downswings.

It has been furthermore, a characteristic of recent markets that patterns in individual areas tend to vary. The Over-the Counter market, for example, began to be taken apart almost a year ago, and, although the OTC average joined other indicators in moving to new lows this week, it has recently been performing no worse than the widely followed averages and there is ample evidence of basebuilding in this area. Energy, an area worth noting since it constitutes some 20% of the major averages, has been immune to the decline thus far and, indeed, the Standard & Poor's Oil Composite Index reached a new two-year high just a week ago.

The imponderable, of course, is the development which touched off the short-term weakness, the possibility of an impending banking crisis. However, recent action might even make us feel that we have learned something about the handling of such crises. As noted above, the market in the past three weeks was down some 7%. The last wave of major bank failures produced the biggest bear market in history.

We think, in sum, the decline has reached a stage where it is necessary to await the next rally attempt --- and one will occur, if only on a short-term basis --- before making a final decision on the cycle picture. However disappointing recent action may be, it is still possible that it is part of a process other than a cycle bear market.

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Dow-Jones Industrials (12:00 p.m.)	1109.30
S & P Composite (12:00 p.m.)	151.60
Cumulative Index (5/24/84)	1852.50