TABELL'S MARKET LETTER

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It is difficult to find a great many good things to say about last week's stock-market action. It is true that Wednesday and Thursday both featured moderately strong rallies carrying the Dow-Jones Industrials up a total of 21 points for the two days. However, there was little to differentiate these attempts, either in terms of breadth or volume, from their many predecessors of the past six months. Moreover, they did not occur from the sort of deep oversold condition which might tempt one to view them with a bit more seriousness. At this point, if the short-term market prognosis is to improve, it will have to do so via a process of the market's proving itself, developing more in the way of demonstrated upside vitality than it has been able to do so far.

This dearth of positive technical action can hardly be said to be a new phenomenon. Indeed, it has been the rule ever since January and, to a lesser extent, for six months before that. As long ago as June 17, 1983, the Dow reached an intra-day high of 1260.72 and the Standard & Poors a peak of 172.76. Both indicators were to make new highs, but only marginal ones, after that, the peak for the Dow coming in late November, and for the S & P some six weeks earlier, in mid-October. These highs were again approached in January for both averages, after which the market headed due south, reaching a new low this week of 1086.57 on a closing basis for the Dow.

Where does all this leave us? At this week's closing bottom the Dow was down 15.59% from its January 29 high, with the S & P down 14.38%. In simplest terms, we have a market which has been going down, certainly for most of this year, and, in terms of momentum, since last June or for over 13 months.

A market downtrend has, unarguably, been taking place. However, one phrase, the absence of which readers will have noted in this particular publication, is the term "bear market". Our colleagues have been far less bashful. Many are using the phrase today and are tempering their occasional bullish opinions by qualifying them as forecasts of "rallies in a bear market". It is certainly possible that they are correct. The possibility of bear-market conditions exists on any day that the market fails to make a new high. This, as far as the Dow is concerned, has been true since last November.

If one is going to wave the phrase "bear market" around indiscriminately, however, he would do well to define just precisely what it is he is talking about. As far as defining bull and bear markets is concerned, this is not always that easy. Our own preference is to use the terms exclusively within a major-cycle framework. As we have repeatedly demonstrated, it is possible, without stretching the data too much, to go back to the beginning of this century and separate market action into a series of cycles, the bottoms of which have tended to be pretty close to four years apart. Between the two lows of each of these cycles there has, by definition, been a peak, and the period between that peak and the subsequent low can, in our view, appropriately be called a cycle bear market.

This procedure is not without its difficulties. For example, it forces one to call the period January 5, 1953-September 14, 1953 a bear market, despite the fact that the Dow was down barely 13%, considerably less than it has already declined this year. This is quite simply because it is the only period that effectively separates the eight years between 1949 and 1957 into two separate cycles. By contrast, between January 5, 1960 and October 25, 1960 the Dow was down some 17.42%, a much greater decline than that of 1953 and slightly greater than the one we have seen to date. It is difficult, however, to call this a bear market. The market spent the next 14 months in a 30% advance that brought the average well above the point where the decline started. The real bear market then ensued in the first half of 1962.

Concerning the present major-market cycle, there are only a couple of things which are known with any degree of certainty. The first of these is that its beginning low occurred on August 12, 1982. It is also highly likely that its terminating low will occur at some date fairly well out in the future, sometime in 1986 being the most logical expectation. If we are to posit a high on November 29, 1983, we would have a cycle that spent less than a third of its total lifespan in an expansion phase. There are historical precedents for this but not many of them.

Another possibility which would validate the present bear-market thesis would be that the entire cycle will turn out to be contracted in length to two years or a bit more, with the declining phase actually having begun in November and to end fairly shortly. Again, there are a few, but very few, historical precedents for an attenuated cycle of this nature.

It is for the above reasons we have taken the calculated risk, for the past six months, of refusing to call the obviously weak stock market we have been seeing a bear market. It is a risk which may prove to be ill-advised, but we will stick with it for the time being.

AWT:rs

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Dow-Jones Industrials (12:00 p.m.)	1113.18
S & P Composite (12:00 p.m.)	150.25
Cumulative Index (7/26/84)	1794.40