

TABELL'S MARKET LETTER

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With a week having gone by since the second biennial August explosion, market commentators have had some time to sort things out and attempt to draw conclusions from what has taken place. Due note has been taken of the new volume records chalked up, largely, we suspect, because trading activity passed a round-figure barrier in exceeding 200 million shares. Volume can now be relegated to sub-headlines until it passes 300 million, an event which may occur sooner rather than later.

Our own impression is that the general reaction to the past fortnight's buying orgy has been, if anything, a trifle blase. Most writers seem agreed that the transmogrification of the first week in August has improved the market outlook somewhat, and many now seem to be calling for new highs on the Dow, possibly to be reached before Election Day. Since, translated into numbers, this particular prognostication calls for nothing more than a 4% rise over 2½ months, it hardly qualifies for the fearless-forecast-of-the-year award. Implicit therein, however, is the assumption that the November-July weakness constituted an intermediate-term correction, and that the cycle bull market remains in effect, an assumption with which we heartily concur, having maintained it throughout the first half of 1984.

What has elicited little comment, to date at least, is the fact that we may be entering a new and uncharted realm of stock-market behavior. In many ways, the action of last week was, with the single exception of its precursor of two years before, totally without precedent in stock-market history. Let us develop this thesis a bit further.

What happened, of course, is that the market went up a lot. This by itself, should engender little excitement. Markets have gone up a lot in the past and will do so in the future. What makes the current instance unusual is the sharp rise combined with what the market had been doing prior to that rise. That was declining slowly and lethargically over the seven months from November 29, 1983. Sharp snapbacks after steep declines are a commonplace feature of market history. Upside explosions of last week's magnitude occurring after a period of dullness have taken place only twice in 58 years.

Let us document this a bit further. In the eight days from July 24 to August 3 the Dow had risen 10.6% to 1202.08. The last time it had been above that figure was February 2, 1984, and it required 119 trading days for it to get from that point to the July 24 low. We thus retraced, in eight days of trading, a 119-day decline. Expressing these two numbers as a ratio, dividing 119 by 8 produces 14.88, a figure that, with a single exception, has never occurred or even been approached since 1926. The exception, of course, was the period August 12-August 23, 1982 when, in a seven-day rise, the market erased a decline that consumed 169 days on the downside, producing a ratio of over 24. Prior to that the highest figure ever reached had been in the 6-7 range.

We are dealing here, therefore, with a situation where the last two major upside turns have developed with characteristics totally unshared by the 69 major and intermediate-term reversals that preceded them over 58 years of stock-market history. There are many possible explanations as to why this phenomenon should be taking place as we enter the 1980's. We have developed these explanations at length in the past, and it is our intention to develop them further in the near future. A subject which is even more appropriate for future discussion at length, it seems to us, is the implication of this sort of change in environment for investment strategy, especially those strategies based, in whole or in part, on technical analysis. A cornerstone of portfolio strategy has always been that markets, in the broadest and most general sense will tend to repeat patterns that have occurred regularly in the past. When we come into possession of evidence that the market is suddenly not doing so -- in a fairly crucial way -- we have a situation deserving some fairly intensive analysis.

ANTHONY W. TABELL
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AWT:rs

Dow-Jones Industrials (12:00 p.m.)	1240.72
S & P Composite (12:00 p.m.)	168.10
Cumulative Index (8/9/84)	1969.60

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