TABELL'S MARKET LETTER

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The feature of this week's trading was a 22-point upswing on Tuesday which brought the Dow to 1239.73, a new high for the move which began in late July and a level 14.1% above the low scored just four weeks before. The DJIA is now within 3.8% of its all-time high and the S & P 500 within 4.3% of that high, lending credence to the scenario of an ongoing bull market.

In the midst of the week's excitement, there occured on Tuesday the release of New York Stock Exchange short interest figures for the settlement period ended August 15. The release was of more than passing interest for a number of reasons. First of all, total short interest was up some 11 million shares from the previous month, to a new record to just under 213 million shares. Member firms report short interest as of settlement date, so that the figures included regular-way trading through August 8, by which point the Dow had already advanced well over 100 points from its July 24 low. It seems axiomatic, therefore, that short sellers remained skeptical of the rally at least to that point, a skepticism which augurs well for the continuance of the of the advance.

This bullish interpretation remained in place following calculation of the short-interest ratio. This particular statistic is one of the more venerable of all technical indicators. It is arrived at by dividing the actual short interest figure by average daily volume for the trading period involved. Even with a sharp increase in the volume mean, to 103.5 millions shares, the ratio was above two, to be precise, 2.06. This level, combined with August's explosive stock-market rise, rekindled a debate which has been going on among market technicians for the past year or so.

Historically, a short-interest ratio of over two has been one of the most accurately bullish of all technical indicators. Between 1945 and mid-1983, such a figure had been reached in only 20 months. In every single one of these 20 cases the market was higher, usually substantially so, one year later. Furthermore, the occurrence of a ratio of over two "called" six of the nine major bull market bottoms since 1949. The past instances of a ratio above the two level are listed in the table below. Only the first occurrence is shown, where strings of consecutive occurrence took place, and the number of such occurrence is listed.

FIRST DATE	NO. OF OCCUR.	SHORT INTEREST	AVG DAILY VOLUME	SHORT INT RATIO	DJIA (YR AGO)	DJIA (CURRENT)	DJIA (YR LATER)
MAR 15 1949	7	1,498,000	714,435	2.10	167.62	176.02	207.46
DEC 15 1951	2	2,446,000	1,134,800	2.16	224.70	265.48	285.99
MAR 14 1958	4	4,768,000	1,913,000	2.49	473.93	453.04	607.88
OCT 15 1962	1	6,858,000	3,176,670	2.16	703.15	589.69	742.19
AUG 15 1966	2	12,610,000	5,949,050	2.12	891.13	834.85	919.15
SEP 15 1967	1	18,330,000	8,265,450	2.22	814.30	933.48	921.37
MAR 15 1968	1	19,920,000	9,204,500	2.16	854.06	837.55	904.03
JUL 15 1970	1	20,070,000	9,196,670	2.18	841.13	711.66	888.87
JUN 15 1982	1	99,050,000	47,742,900	2.07	1011.99	801.27	1237.28
SEP 15 1983	10	168,700,000	74,106,800	2.28	930.46	1215.04	???????

In the past year, however, as the last line of the table shows, a strange phenomenon has taken place. September 15, 1983 began a period in which the ratio was above two in every month but one through last month. While all of this was going on the market was topping out and turning down in the intermediate-term correction which began last November. Many analysts began to theorize that the short-interest ratio no longer "worked," and that new factors (i.e., options and futures which could provide a hedge against short positions) made the old parameters no longer valid. We agree that there may be some validity to this line of reasoning. The problem is that we do not know what those new parameters might be. It is, meanwhile, just possible that the market rally has validated the old ones.

As the table shows, the first recent occurrence of a 2+ ratio was on September 15, 1983 with the Dow at 1215.04. It is above that level today, and it is therefore at least possible that it will be above it on September 14, three weeks from today. If this is the case, the historical interpretation of this index will be, at least temporarily, vindicated. Since the ratio has remained over two ever since September, 1983, the classical interpretation would also call for a consistently higher market over the next year. It will be interesting to see whether this historically highly accurate indicator can maintain the perfect record it has shown for the past 39 years.

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Dow-Jones Industrials (12:00 p.m.)	1232.10
S & P Composite (12:00 p.m.)	167.42
Cumulative Index (8/23/84)	2007.95