TABELL'S MARKET LETTER

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September 21, 1984

Avid readers of this letter, who feel they scrutinize it sufficiently closely each week to be aware of every nuance of our current market opinion, are herewith given permission to stop reading at this point. With the market having spent essentially a dull week, we intend, for the benefit of less-than-avid readers, once again to summarize that opinion and some of the threads of evidence that lead us to it.

The opinion can be summarized very simply. We think the market is likely to go higher. However, we are reluctant to expect a great deal from it, either in terms of percentage advance from this level or in time to be spent advancing from here on out.

The three principal hypotheses which lead us to the above conclusion are as follows:

1. A major bull market began on August 12, 1982.
2. The initial momentum of that bull market began dissipating around Summer-Fall, 1983.
3. This in turn led to the bull market's first (and probably only) intermediate-term correction, which ended on July 24, 1984.

Ergo: Whatever can normally be expected to remain for a typical bull market after the above events have taken place still lies ahead of us.

Let us examine the above hypotheses and their conclusion in a bit more detail. The first, we think, is essentially unarguable. The second is almost as patently obvious. On an elementary level one need only compare a chart of the averages, post-June-1983, with the action up to that point. On a more sophisticated level, breadth and volume indicators began a deterioration in mid-1983 which was remarked at the time not only by us but by almost all of our technically oriented colleagues.

The third hypothesis, even today, may be a bit more controversial. The downswing which carried the Dow from 1287.20 on November 29, 1983 to 1086.57 on July 24, 1984 was the largest correction in the upswing to that date. No correction prior to that can be called anything other than minor in scope, the worst previous decline having been approximately 7% in extent and under three weeks in length. The problem arises in the taxonomy of the seven-month period ended last July. The week before it ended we filled this entire space (without in any sense predicting its actual conclusion) outlining our reasons for calling it an intermediate-term correction rather than a full-scale bear market. We think the vigor of the rebound which materialized in early August validates that thesis, although the final confirmation will obviously not take place until the Dow attains or at least approaches a new all-time high, something we expect it to do.

The extent to which this scenario -- so far at least --- is consistent with historical norms is almost uncanny. Major market cycles in this century have averaged 45 months in length, with 61% of their lifetime spent advancing. Exact conformity with this pattern would call for a low in May, 1986 and a high in December of this year. The average percentage advance for all cycles had been 72% versus a rise of 66% for this one so far. Initial intermediate-term corrections have tended to materialize just about as far into past bull markets as the downswing which began in November, 1983. The only slightly surprising factor about the recent decline, in historical terms, was its length and extent. It constituted the longest and deepest recent such correction, with the single exception of January-October, 1960, which slightly exceed it both in terms of length and percentage decline.

The three hypotheses above fix today's market firmly within a cyclical framework, a bull market which has undergone a completed intermediate-term correction and is now in its final phase. An examination of the historical record tells us, within fairly narrow limits, what can be expected from such a phase. The minimal expectation is a test of the previous high. This was the case, for example, in 1957. The average expectation notes the fact that some 70% of the move was likely to have been over around the start of the loss-of-momentum phase, in other words at 1240 on the Dow last June. If the 464 points gained to that point were 70% of the total advance, the ultimate rise would be to roughly 1439, a figure we regard as plausible if a bit optimistic.

From a timing point of view one would expect, as noted above, to see the ultimate high occur sometime around the end of the year. There is a fairly wide historical latitude here, however, and an extension well into 1985 would hardly be unprecedented.

One of the functions of markets is to create surprises, and it would hardly be unusual for the market, which has adhered amazingly to the projected scenario so far, to vary widely from it between now and its conclusion. That variance, however, could come in either one or two directions, the downside or the upside. Our assessment at the moment is that the risk of the latter variation, a market which moves ahead further than we now suspect, is somewhat greater. It is for this reason that we think the investor should await further development from the posture of a relatively fully invested position.

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Dow-Jones Industrials (12:00 p.m.)	1223.49
S & P Composite (12:00 p.m.)	167.76
Cumulative Index (9/20/84)	2057.46