TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 924-9660

August 23, 1985

Having indulged ourselves last week in a mild flight of fancy, it is probably incumbent upon us to revert to seriousness. Let us, therefore, begin.

On July 19, just over a month ago the Dow-Jones Industrial Average attained a new alltime high at 1359.54. That particular datum is the single most relevant fact to a technical analysis of today's stock market. It means, quite simply, that, as of that date, a major bull market was still intact. (Whether that bull market began in August, 1982 or July, 1984 is a philosophical conundrum that need not be resolved for purposes of this discussion.) Over the next month, 21 trading days, the average posted a 3.46% decline to 1312.50 on August 19. After a couple of days recovery, that low is again being tested.

This modest decline from mid-July to mid-August has, it seems to us, engendered more than the normal amount of pessimism. Market sentiment, while by no means at extreme bearish levels, has turned considerably more conservative over the month. This may be due in part to the fact that the decline in certain market segments was a good deal more severe than the average would suggest, coupled with the fact that those market segments had tended for almost a year to be upside leaders. For money managers oriented toward short-term performance the shift, has, therefore, been more than a little disquieting.

Even so, it is hard to see what all the fuss is about. Over the most recent segment of the advance, from July, 1984, there have been no fewer than three declines that were both deeper and longer than mid-July-mid-August. During the previous segment, from August, 1982 to November, 1983, there were ten deeper declines, although, in the early stages at least, they tended to be over more quickly. It is a fair statement, however, that there exists absolutely nothing in the recent action of the averages that would suggest anything other than a short-term correction which will, shortly, run its course, followed by a move to new highs.

There do exist some minor symptoms of deterioration, symptoms which will become more disturbing with persistence. The first such is, of course, the leadership shift noted above. The weakness in disinflation-hedge stocks has been unaccompanied by the clear emergence of new areas of leadership on a long-term basis. Basic-industry and the depressed high-technology sectors are potential candidates for this mantle, but whether it will, in fact, descend upon them is not yet certain. This has produced, for the time being, noticeable deterioration in those indicators based on the number of advancing groups.

Moreover, breadth action, since the market started down, has not been particularly outstanding, and the decline in breadth indicators since mid-July has been somewhat greater than would have been expected given the miniscule drop in the major averages. This will, of course, make it more difficult for breadth to attain new highs on any subsequent advance.

But, and this is an important "but", both daily and weekly breadth indices attained new highs a month ago coincident with the Dow. We will, once again, restate a central fact. Highs in breadth are regularly scored well ahead of highs in the market, usually with substantial lead times. For the record, the table below shows the relevant figures for the past eight bull markets. The lead time between breadth highs and market highs has ranged from seven to thirty months.

BREADTH HIGH	DJIA HIGH	MONTH LEAD
Feb 10 1951	Jan 5 1953	23
Mar 4 1955	July 12 1957	26
Mar 13 1959	Dec 13 1961	21
May 13 1965	Feb 9 1966	9
May 8 1967	Dec 3 1968	19
Apr 28 1971	Jan 11 1973	21
Feb 27 1976	Sep 21 1976	7
Sep 11 1978	Apr 27 1981	30

There exist, it must be admitted, a couple of special cases not suggested by the figures in the table above. Fairly significant intermediate-term declines have, in fact, often been preceded by somewhat shorter divergences. An example would be the 17% drop of January-September, 1960 prior to which the breadth lead was only nine months. Similarly, in the current upswing, a breadth peak emerged in June, 1983, leading by five months the decline which began in November and continued through July of last year.

It is, nonetheless, advisable to reiterate the simple fact that major-market declines historically do not emerge out of thin air. They tend, rather, to be preceded by a reasonably lengthy process of deterioration. This process may in fact have begun, and it will be the technician's task to observe and comment upon it. However, there is little reason not to expect at-least-somewhat higher market levels before it is complete.

AWT:rs

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

Dow-Jones Industrials (12:00 p.m.)	1316.53
S & P Composite (12:00 p.m.)	187.29
Cumulative Index (8/22/85)	2584.29