TABELL'S MARKET LETTER

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The week's market performance can, certainly, be said to have been satisfactory. It placated round-number freaks by finally posting a close above 1500 and extended the intermediate rise begun on September 20, to a 16.5% advance in the Dow in just 56 trading days. Although we demonstrated last week that the vigor of the uptrend, compared with a couple of its predecessors, was less than extraordinary, it was certainly nothing to sniff at.

With new highs having become almost a regular fixture, it is perhaps worthwhile to reexamine the market's behavior in light of cycle theory. The market has not yet outgrown the cloak of conventional cycle analysis, but that garment is growing more and more uncomfortable. This raises a few questions.

The basic tenet of cycle theory, let us recall, is that the market tends to move in repetitive up and down patterns, with these patterns possessing a definite and fairly regular periodicity. Our own interpretation identifies 23 major cycles since 1896, and scholars have carried a similar pattern back to the late 18th century. The average length of these cycles, measured from low to low, has been 45 months giving rise to the familiar term "4-Year Cycle". Skeptics regarding this pattern should attempt the exercise of listing all major market lows since 1938. With two exceptions (1946-49, and 1953-57) the low years will be seen to have occurred regularly at four-year intervals.

Using monthly closing prices, and assuming a closing new high in December, the present cycle, whose monthly low was in July of 1982, is now 41 months old. Since the average cycle length is 45 months, and there have been ample instances of cycles in the 50-55 month range, there still remain some 4 to 14 months for a typical cycle completion.

Let us recall, however, that we are measuring cycles from low to low. The current episode, therefore, must find time, in its relatively brief remaining lifespan, for a correction of the advance which continued through this month. What we are talking about here is the shape of the current cycle, or, in other words, what percentage of its total length is spent in an advancing phase. This shape, has, historically, varied widely, but there is ample precedent for as much as 90% of a given cycle constituting the upward portion If we assume a maximum length of 55 months, with 90% of those months advancing, we are looking at a 49-50 month expansion phase, one which could take us into Fall, 1986. That, however, is pushing to the maximum in terms of historical experience.

It is the strength of the current rally that causes some difficulties with this interpretation. Breadth, as we noted last week, has recently moved to new peaks, and these peaks generally have significant lead time on peaks in the averages. There remains room in breadth analysis for a market topping out as early as next Fall, but just barely.

There does exist, as we have noted in the past, a way out of this dilemma which is to posit a completed cycle at the month-end close of May, 1984 (July was the actual low), and a new major cycle upswing starting from that point. There are, however, problems with this interpretation. It is possible to regard November, 1983-Summer, 1984 as a completed cycle bear market --- there have been smaller ones on record --- but the resulting cycle length of 22 months is historically without precedent. The only comparable case on record was the 23-month cycle of August, 1921-July, 1923. As if to compensate for the shortness of that swing, the market then produced the most extended cycle on record, running 76 months through November, 1929. If the mere mention of that year causes trepidation, let us firmly note that, if such an experience is to be repeated, we are still in the early stages of the projected cycle, with some pretty astounding upside targets well ahead of us.

We cannot say we are totally comfortable with this latter alternative, especially since the present rise has many of the hallmarks of a late-phase extension advance, which brings us back to the conventional interpretation outlined above. Even on this basis, however, it becomes evident that the current cycle is likely to run to the long end of the historical range, suggesting a continuation of recent strength for some time into 1986 at least.

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AWT:rs

Dow-Jones Industrials (12:00 p.m.)	1523.85
S & P Composite (12:00 p.m.)	208.32
Cumulative Index (12/12/85)	2644.23