TABELL'S MARKET LETTER

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Our past two letters have focused on what we think are amazing parallels between the economic and stock market environments of the early-middle 1920's and 1980's. We noted that, between August, 1921 and February, 1926, the Dow Jones Industrial Average rose 154%, from 63.90 to 162.31. The present market, since August, 1982, has, so far, moved ahead 118% from its low of 776.92. Both markets featured relatively mild but fairly lengthy mid-course interruptions, in 1923-1924 and 1983-1984. Both took place during similar economic environments in which the most conspicuous features were stable price levels following long periods of accelerating inflation and interest rates declining sharply from historic peaks. The post-1986 course of the stock market remains, of course, unknown, while its post-1926 behaviour is, unhappily, a matter of historical record. That record is all too well known, but we should like to devote this issue to examining some aspects of it as a preamble to future discussion of what today's similarity to the mid-twenties might be telling us.

To begin with, the Dow had, as we noted above, by its February, 1926 high, advanced a bit more than it has to date. An exact duplication of 1921-1926 today would see the index around 2000, a figure, it should be noted, a great deal less spectacular than it seems, involving only an 18% advance from current levels. Following the February, 1926 high, 14 months of what can be described as mild consolidation ensued. The market suffered a sharp pullback in February-March but recovered nicely over the spring and summer, testing and slightly exceeding the February high in August-September. This test was followed by sideways to downward action through the spring of 1927. It is interesting that, based on the extent of the advance so far and the market's overall technical position, a similar scenario for 1986 is not at all implausable.

The upside breakout was scored in April, 1927, and it is from this point that the start of the final chapter may be dated. There followed 29 months of advance with no gap of longer than a month between new highs. The Dow ultimately moved to almost two-and-a half times its February, 1926 high. An equivilent advance in the late 1980's would have the Dow somewhere between 4000 and 5000 toward the end of the decade. The culmination of all this was, of course, 1929.

1929. We have pronounced what must be considered the ultimate nasty word to those of us concerned with financial markets. The year, of course, possesses deep symbolic significance, yet, as our readers know, we disagree rather strenuously with the mythology that its mention evokes in the minds of many investors. That mythology suggests that, at some point in 1929, probably on black Thursday, October 24th, a curtain was drawn over the past and all aspects of life in America were immediately and instantaneously transformed, never to be the same again. Our own view is that the stock-market debacle, which lasted for ten weeks, is one phenomenon, a market collapse which certainly differs from a host of others in magnitude but not necessarily in nature. The thirteen years of depression which followed are, in reality, what evoke the shudders which mention of the year 1929 induce today.

It is worth rememberingthat, when the Dow, after a 50% drop, reached 198.69 on November 13, 1929, it was still significantly above the high of the 1921-1926 advance we have been discussing. Furthermore, it recovered strongly from that point and, by April, 1930, had regained half of the spectacular loss. It is what happened after that, not the ten weeks of fireworks, that produced the lasting trauma. Between April, 1930 and 1932, the average sunk from just under 300 to 41. This sickening collapse took place, not with spectacular levels of trading, but with ever-decreasing volume, volume which, by the time the process ended two years later, was averaging a half million shares a day. To the extent the financial world ended, it ended not, as the popular myth would have us believe in 1929 with a bang, but in 1932 with a whimper.

What was worse, this dismal performance was eminently justified. As we all know, by 1933 GNP had been cut in half, unemployment was 25 percent, and corporate profits were negative. There was, moreover, after 10 years, little improvement. The second major cataclysm of the twentieth century, World War II, was required finally to usher in a new economic era.

Our objection to the conventional symbolism of 1929, then, is the linkage between the short stock-market collapse of that year and the depression which characterized the 1930's. We are certainly not claiming that the two events were unrelated, and there do indeed exist connections between the manifestations of the more unattractive aspects of mass behavior of the late 1927-1929 financial markets and the disastrous decade which followed. The point is that it is the decade, not the ten weeks, that left the scars which are, even today, not entirely healed. It is that experience which, with improved economic knowledge and tools, it is to be hoped the U.S. economy can avoid.

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AWT:jrh

Dow-Jones Industrial Average (12:00 p.m.)	1706.87
S & P Composite (12:00 p.m.)	225.68
Cumulative Index (2/27/86)	2913.14