TABELL'S MARKET LETTER

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We are attempting, this week, once more to take up the cudgel following a two-month enforced medical absence. As has been the case in the past when we have spent long periods away from our desk, we have tried to follow the market as closely as circumstances allowed. The major impression which emerges from that inspection is that very little seems to have changed since we entered the hospital in early March. This remains true despite the 42-point, Wednesday decline in the Dow, which found itself hailed in many headlines as the largest decline in history.

The above characterization, without qualification, appeared in a number of quarters which should have known better. The drop of 41.91 in the DJIA was indeed the deepest ever for that average in terms of points, a statistic which (no pun intended) is pointless. As we and our fellow technicians have been lamenting for years, the significance of a decline can only be measured in percentage terms, and in those terms the Dow's 2.3% drop can hardly be considered a disaster. Over the past 60 years, in fact, there have occured no fewer than 362 one-day declines of greater magnitude. Since there have, in those 60 years, been 16,304 trading days, the average expectation is that such a decline should appear no fewer than 1 day in every 50. This should hardly be the stuff of headlines.

We have, for what it is worth, a suggestion as to how one ought to think about the large numbers of points which have characterized recent market swings. Subconciously, our thinking about the market is probably largely conditioned by the eighteen years ended 1982, during which the Dow remained confined in a trading range whose average level was roughly half today's. Wednesday's 40-point drop, therefore, has about the same significance as a 20-point decline in terms of most investor's psychological conditioning. It is probably therefore appropriate, in considering future market swings, to divide them by two before becoming wildly excited about their significance.

In any case, the 10-day drop from the April 21st high appears, so far at least, to be nothing more than a loss of momentum, and a minor one at that. As our colleague, Bob Simpkins, pointed out in this space while he was ably filling in for us, the April peak in the Dow was confirmed by both daily and weekly breadth indexes. Our readers are aware that such breadth peaks tend to lead peaks in the Dow by intervals measured minimally in months and often in years. Other statistics confirm the market's continued upside momentum. As recently as February 18th, 452 daily new highs were scored--just about equalling the 454 posted a year ago. There has been some deterioration since (only 332 new highs on April 16th), but new highs historically have peaked as much as 2 years before the end of a bull market. It thus appears that there is little cause for alarm from this sector at the moment.

Indeed, despite Wednesday's sharp drop, the market continues to set one peculiar record. To date, 351 trading days have passed since the Dow has seen a 5 % correction, the last one having ended in December, 1984. The upswing now has become the third longest in history without such a correction, having surpassed the December, 1953-January, 1955 period, and is now exceeded only by the 410-day advance of December, 1957, - August, 1959 and the 370-day rise following the Kennedy assasination low of November, 1963.

About the worst thing that can be said about the recent action it that it may have laid the groundwork for the development of future vulnerability. The average has now returned to the 1800-1770 level within which it spent most of the early part of April. Further trading in this region, followed by a decisive break below 1770, might eventually suggest a correction approaching intermediate-term in scope, but such evidence is not yet present.

Nor does it seem, to date at least, to be present in individual stock patterns. There exists at the moment, according to our own reading, a surprisingly small number of tops, most of these centered in the financial area, suggesting perhaps only that the recent rather amazing bond-market rally may be in need of some consolidation. Indeed, what may emerge from the current downswing may well be a shift in leadership rather than a decline. The improving short-term action of over-the-counter, secondary issues was noted in this space last week. Such issues could well emerge as upside leaders once the present correction is complete.

The maturity of the present advance is a fact well known to the readers of this letter, and it is indeed possible that the action of the past ten days may constitute some early, tentative steps in the process of unwinding that upswing. Before this takes place, however, evidence a good deal more significant than that provided by a miniscule week-and-a-half drop will have to accumulate.

Dow Jones Industrial Average (12:00 noon)	1784.47
S & P Composite (12:00 noon)	235.61
Cumulative (5/1/86)	2679.25

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