TABELL'S MARKET LETTER

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We have spent a great deal of time of late minimizing the importance of the multi-point declines (and advances) which have been providing fodder for newspaper headlines for much of 1986. It is not quite so easy to do this in the case of the 62-point, 3.25% plunge on Monday, especially in light of the further downside action the following day. We could, of course, point out that Monday's fall ranks only as the 163rd largest drop since the Dow emerged in its current form in the 1920's. There have, however, been only nine larger ones in the post-World-War-II, modern era. The timing of their occurance does not tell us a great deal. Five occured in reaction to totally unexpected outside events, two in response to the Truman election in 1948, two in response to the outbreak of the Korean War in 1950, and one following the Eisenhower heart attack in 1955. Two others, May 1962 and November 1974, occurred preceding, but close to, important cycle bottoms. October 25, 1982 was a correction, erased in a couple of weeks, of the sharp advance that had started in August. Only one, November 26, 1973 was the start of an important market decline.

Enough, however, of interesting facts probably not worth knowing. It is certainly a requirement at this stage to examine just what effect the rather spectacular events of the past week may have on the market outlook. Our readers are aware that we have been pointing out since May the various changes, not for the better, that have been occuring in the technical market picture since the first quarter of this year. This week's action must first be viewed, we think, as another link in the chain of evidence suggesting internal deterioration. It occured, we are duly informed, in response to the assertion by two respected forecasters of the existence of a relatively high degree of short-term market risk. The sensitivity of the market to these forecasts demonstrates, we think, its current fragility. We suspect that both John Mendelson and Bob Prechter would agree that they could, theoretically at least, have made these assertions in another sort of environment without the immediate effect having been anywhere near as great.

We find ourselves, we admit, being unable to take serious exception, except perhaps in degree, to the forecasts involved. Twenty percent is, after all, the normal threshold for a bear market, and the week's events should not destroy the memory that we made a new high in a forty-seven-month-old bull market as recently as last Wednesday. Quite simplistically, bear markets are what normally follow bull markets.

Recent issues of this letter have been noting some of the similarities of the current era to the first part of the 1921-1929 period, a market expansion whose central feature was the lack of any bear market in the normal sense. Thus the ultimate emergence of a cycle downswing at some stage would be neither surprising nor unhealthful.

We must confess, however, some doubt about the immediacy of the prospect. This week's break brought us out of a clearly defined top, the downside targets of which seem to center around 1770-1760. A basic question, in our view, is whether the market will be able to hold in that area and mount, at least, a further test of the former highs. Should it fail to do so, the immediate-bear-market thesis would certainly have to be granted increased validity. We think, however, that there is some likelihood that the final break may be delayed.

The major factor giving force to this view, we think, is the patterns on individual stocks, especially the defensive, disinflation-beneficiary issues which have constituted market leadership during almost all of the bull's second phase. Serious market weakness arises from a combination of exploited stocks and major distributional patterns. The disinflation-hedge stocks, from a technical point of view, and to some degree from a fundamental one also, may be said to be exploited issues. What they do not possess is major distributional patterns along the lines of the "niftyfifty" in 1973-74.

We also find ourselves unable to concur with various warnings that increased speculation is suggesting an imminent market decline. The NASDAQ Industrial Average is up from its September low less than is the Dow and has just barely exceeded its June, 1983 high, achieved when the DJIA was around 1250. Secondary offerings have indeed increased, but to those of us old enough to recall real new-issue booms, the current atmosphere seems fairly tepid.

None of this is an attempt to ignore the real signs of technical weakness that have been manifesting themselves over the past four months, which we---and our colleagues---have regularly been pointing out. Nor is it an attempt to suggest that any further amazing upside potential exists in what can be agreed to be a well-exploited market. It is simply a suggestion that market crosscurrents may, indeed, continue for a while.

In such a market, indeed, the individual investor's reaction is often best determined by that investor's own frame of mind, as illustrated by the old story of the stockholder who confessed to his psychologist that he could not sleep at night for worries about his stocks. "Sell" was the doctor's advice, and the investor asked, "How much?". "To the sleeping-point" was the reply.

AWT:vfl

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Dow Jones Industrials	1830.99
S & P 500	242.85
Cumulative Index (July 10, 1986)	3122.63