TABELL'S MARKET LETTER

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The most significant fact about the current stock market is that it made a new high on July 2nd.

That statement is, of course, deliberately aimed at provocation. Here we have a market which has undergone a 60-point down day, was, at mid-week, down almost 150 points from that aforementioned high, and we are babbling about new highs two and a half weeks ago. Yet we reiterate the fact that the eleven-trading-day-old high constitutes at the moment a more useful fact for determining investment policy (as opposed to a forecast) than the decline which followed it.

Let us step back a bit and review what has happened. First of all, the market has declined 7.35% between July 2nd and July 15th. There. That should make us feel better already. We have still, of course, not gotten over the culture shock of having the DJIA as high as it is. 150 points, of course, seems like disaster. 7.35% sounds like the minor decline that it, in fact, is. Furthermore, it gives us a historical benchmark.

If we go back forty-four years, to April 1942, we find the recent drop was the 48th of equal or greater magnitude in those 44 years. It seems, perhaps, a more important occurance than it is, since it follows the third longest period, 490+ days since July 24, 1984, without such a decline. (The three longer periods were October, 1962 - May, 1965, November, 1943 - February, 1946, and September, 1953 - September, 1955).

We return to the importance of that July 2nd high. Of the forty-seven similar highs that preceded it, thirty began from what we now know by hindsight to have been new highs within the context of bull markets, something we can all agree was the case on July 2nd. Of those thirty, ten constituted the final new highs in the bull-market of which they were components. Following the other twenty, the bull market in question went on to new peaks. Given the length of the current advance, it is probably unwise to translate this into two-to-one odds in favor of an ongoing upswing, but the statistic should, at least, be comforting.

Let us, however, assume the worst-case scenario and assume that July 2nd, 1986, turns out to be the bull-market high. What sort of market action may be expected over the next few months? The following table, while somewhat arcane, attempts to provide answers to this question. It gives the 10 dates over the past forty-four years when a 7.35% decline marked the start of a cycle bear market. It then shows the last date following the bull market high on which the Dow remained within 2%, 5%, 7% and 10% of its peak. The figures in parentheses are the number of trading days following the high. For perspective, in current terms, down 2% is equivalent to 1871, 5% to 1814, 7% to 1776, and 10% to 1718.

BULL MARKET HIGH	LAST DATE WITHIN A GIVEN % OF HIGH 2%	5%	7%	10%
May 29, 1946	Jun 17, 1946 (12)	Aug 15, 1946 (54)	Aug 23, 1946 (60)	Aug 26, 1946 (61)
Jun 15, 1948	Nov 1, 1948 (101)	Nov 4, 1948 (103)	Feb 3, 1949 (172)	May 19, 1949 (264)
Jan 5, 1953	Mar 25, 1953 (55)	Apr 2, 1953 (66)	Aug 18, 1953 (158)	Sep 9, 1953 (173)
Apr 6, 1956	Jul 26, 1957 (328)	Aug 9, 1957 (338)	Sep 3, 1957 (354)	Sep 19, 1957 (366)
Dec 13, 1961	Mar 19, 1962 (65)	Apr 6, 1962 (79)	Apr 25, 1962 (91)	May 8, 1962 (100)
Feb 9, 1966	Feb 17, 1966 (6)	Apr 26, 1966 (52)	May 2, 1966 (56)	Jun 24, 1966 (94)
Dec 3, 1968	May 16, 1969 (109)	May 29, 1969 (128)	Jun 9, 1969 (124)	Jun 18, 1969 (131)
Jan 11, 1973	Jan 12, 1973 (1)	Jan 26, 1973 (10)	Oct 29, 1973 (201)	Nov 1, 1973 (204)
Sep 21, 1976	Jan 3, 1977 (71)	Mar 17, 1977 (123)	Apr 18, 1977 (144)	Jul 25, 1977 (211)
Apr 27, 1981	Jun 23, 1981 (40)	Jun 30, 1981 (45)	Aug 6, 1981 (71)	Aug 20, 1981 (81)

What the figures show, in effect, is that, in seven of the ten bear markets, the Dow returned to within 2% of its high over periods ranging from two to fourteen months. In nine cases it had returned to within 5% of that high within similar periods, and in all cases shown, a recovery to within 7% of the bull market high ultimately took place. The fastest-breaking bull market was 1973-1974, which fell from 1051.70 in January to 869.13 in June. It had recovered by October, however, to 987.06. By contrast the top between April 1956 and the summer of 1957 took over a year to form.

Now none of the above is intended to suggest blind optimism in the face of the market deterioration which we have been pointing out over the last two months. What it does suggest is that, even allowing for the most pessimistic possible view of that action, that it is the immediate precursor of a cycle bear market, extensive further deterioration will have to take place before such a bear market is likely to take us significantly below current levels. History suggests, in other words, that the two-week-old new high which we mentioned at the beginning of this letter constitutes an argument against precipitous action.

AWT:vfl

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Dow Jones Industrials	1768.14
S & P 500	234.52
Cumulative Index (July 17, 1986)	3068.56