TABELL'S MARKET LETTER

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We suggested in this space two weeks ago that the downside objectives of the top formed just prior to the sharp, July 7th break seemed to center around the 1770-1760 area. By July 15th, the index had reached that area, with a 1768.70 close, and has, so far at least, attempted to hold that low, rising to 1798.37 on Wednesday, before pulling back in Thursday's trading.

Continued action of this sort would be constructive. The Dow presently finds itself testing two fairly important previous bottoms, one at 1758.18, on May 19th, and the other at 1735.51, on April 7th. Continued ability to hold above these benchmarks would have to be construed as a positive sign. It is, ironically, often difficult to poinpoint something so simple as a downside penetration. Both prior lows were made on "spikes", where the average dropped to a new bottom and then rebounded sharply. Thus a short-term, one-or-two-day penetration of the figures mentioned above should not be immediately regarded as bearish evidence.

Meanwhile, as the daily Wall Street Journal market chart quite clearly shows, the relative action of the widely followed DJIA lies precisely in the middle between its siblings, the Transport and Utility Averages. The Industrials have posted three bottoms at approximately similar levels as outlined above. For the Transport Index, the same three bottoms reveal a sharp downtrend, whereas, since May at least, the Utility Average has shown no disposition to correct and finds itself, as of mid-week, at a new bull-market high. None of this, of course, is really anything more than further evidence of the phenomenon we have been remarking on all along. Since March, the market has tended show a far less pronounced overall uptrend and to become less broad, i.e. to produce more and more widely disparate price movements by individual stocks.

As downside targets were being reached, some moderately positive signals were being flashed by a number of short-intermediate term indicators that in the past have demonstrated fair predictive accuracy. Coincident with the low of July 15, the 10-day advance-decline total, one of the most widely followed short-term oscillators, reached -3,140. This could hardly be considered deep oversold territory amounting, as it does, to 15.8% of total issues traded. A deep oversold condition for this indicator, generally attained at major market bottoms, would be around 25%, or, given the 2,000 plus issues that normally trade daily today, around the -5,000 level. The level attained, however, can be considered as a normal oversold one for a neutral market, something which, for the time being at least, we are assuming this one to be.

The same sort of action, suggesting a moderately deep, but not extreme, oversold condition, was being shown by the short-term trading index, the familiar advance/decline-up volume/down volume ratio, invented by Richard Arms and available on all quotation machines. This indicator is massaged by many technicians in many ways. We have found that the combination of a close above 2.00, coupled, within a three-week period, by a ten-day average moving above 1.25, has had some use as an indicator of short-term bottoms. Such an occurance took place early this month when the index closed at 2.81 on July 7th and its 10-day average spent July 15 - July 18 above the 1.25 level. This was the 27th occurance of this particular conjugation since 1964. Measuring market change two months afterward reveals 18 advances and 8 declines on the 26 prior occurances. The average for the 18 advances was 6.5% with the largest being 13%. The 8 declines averaged 3.7%, the largest being slightly over 8%. The overall average for all occurances was a 3.4% gain. If this indicator turns out to be correct in presaging a rally over the next two months it would, of course, be consistent with the sort of scenario outlined in last week's letter, which suggests that, even if the market is in fact topping out, a test of the previous high at 1909 on the Dow would be a minimal expectation. Such a test would also be consistent with the normal summer-rally tendency. What might follow, of course, remains undetermined.

Meanwhile, as action grows more diverse, the problem of individual stock selection has become increasingly difficult. We noted a fortnight ago a basic paradox of the current market. Those stocks which have produced excellent advances and might therefore be thought to be technically vulnerable do not, by and large, have tops. Those stocks which have topped---and there are an increasing number of these---do not seem, for the most part, to be particularly extended. The policy of sticking with winners, in other words, has paid off. However, it becomes more and more difficult to become excited about a market where new leadership consistently fails to present itself.

If the above discourse suggests that the market is awash with crosscurrents, it is indeed intended to do so. We do not think, as we have indicated before, that the nature of the process in which we are now engaged is totally clear, and we think additional evidence will accumulate in the trading pattern to be built up over the remainder of the summer. We prefer to await that evidence, however, before suggesting major changes in investment policy.

AWT:vfl

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Dow Jones Industrials	1809.48
S & P 500	239.27
Cumulative Index (July 24, 1986)	3058.41