

TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

600 ALEXANDER ROAD, PRINCETON, NEW JERSEY 08540

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

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In a 38-point rally on Thursday, the DJIA rocketed to a new all time high. The strength, however, was unimpressive, much of it being obviously program-related, and with a miniscule 116 new highs being posted. Although it certainly does not constitute the conclusive reason for skepticism, the strength also took place at the beginning of September, the only month of the year with a pronounced downward statistical tendency.

The following table summarizes the 1076 monthly changes that have taken place in the Dow-Jones Industrial Average since it was first calculated in 1897. It shows, from left to right, the mean percentage change for each month over the past 90 years, the standard deviation (a measure of the dispersion of individual values around that mean), and the number of months in which the Dow was up or down. As the final total shows, the mean of all percentage changes was a bit over one half of one percent, and, over the 90 years, the Dow has posted 611 up months and 465 down months.

Month	Mean	Std. Dev.	Months Up	Months Down	Z-Coeff.	Chi-Square
January	0.98	4.50	57	33	0.75	1.57
February	-0.39	4.11	42	48	1.59	3.75
March	0.73	5.44	53	37	0.32	0.16
April	0.87	6.82	49	41	0.55	0.20
May	-0.37	5.85	44	46	1.56	2.29
June	0.59	5.60	46	44	0.08	1.18
July	1.37	5.70	55	35	1.40	0.69
August	1.79	5.94	61	29	2.12	4.43
September	-1.24	6.09	37	52	3.01	8.39
October	0.06	5.54	49	40	0.81	0.11
November	0.78	5.87	54	35	0.40	0.55
December	1.33	4.25	64	25	1.33	8.30
Total	0.54	5.59	611	465		

The final two columns represent bits of arcana of interest only to statisticians. The two statistics, z-score and Chi-Square, are standard tests of statistical significance. Both attempt to measure the probability of attaining by chance a subset of given characteristics from a larger set of values whose properties are known, in this case the 1076 known values of monthly percent changes in the Dow. The z-test relates to mean and the Chi-Square to fixed attributes, in this case, direction --- up or down. In the case of September, we have a record of 89 months with a mean change of -1.24%. In 37 Septembers, the Dow was up for the month, and in 52 it was down. The z-test tells us that the chances of choosing a sample of 89 with a mean of -1.24% by pure chance from the 1076 months are considerably less than 1 in 200, and the Chi-Square figure shows the same thing with respect to choosing a sample with 37 up- and 52 down-months. The table quite clearly shows that, in terms of mean, September shows the highest degree of statistical significance of any month under study and slightly surpasses December in terms of direction.

A couple of interesting sidelights are, perhaps, worthy of note. Part of the downward bias in September stems from its including two of the worst declines of the 1929-1932 period, September, 1931, the second worst (after October, 1929) month in stock-market history, and September, 1930. However, interestingly enough the tendency towards a weak September has become especially pronounced since the start of the current secular bull market in 1974. The Dow today is well over three times its level at the low of that year. Yet, since 1974, 10 out of 12 Septembers have been downward months. This seasonal pattern, therefore, provides another reason to suspect the current rally may not persist too long.

AWT:vfl

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL, INC.

Dow Jones Industrials 1909.59
S & P 500 251.82
Cumulative Index (September 4, 1986) 3201.29