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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One more time, and then we promise to shut up. This is by way of introduction to the fifth (and, we hope, the final) letter in the series which began some eight months ago,' comparing the current stock-market/economic environment to that of the 1920's.

Let us begin by quickly recapitulating the major points made in the prior four letters. We started out by noting the uncanny similarities of the market advances of August, 1921-March, 1923 and August, 1982-November, 1983. These two advances produced two equally similar corrections in March, 1923-October, 1923 and November, 1983-July, 1984. This behavior was followed by renewed dynamic rallies in both eras, the current one falling slightly short of its 60-year-ago predecessor. We also noted some resemblance in the economic environment of the early twenties to that of the early eighties. Both featured the culmination of a quarter-century of inflation, followed by relative price stability. We noted that both bull markets represented, in part, a flight from real to financial assets and that both depended, to a degree, on the availability of an ample supply of credit---for margin debt in the 1920's and for credit-financed takeovers in the 1980's.

Three additional points, we think, need to be made.

First, the comparison needs to be brought up to date, and it must be noted that the process of following in the 1920's footsteps can be seen as continuing. Let us compare the two benchmark dates of February, 1926 and March-April, 1986. The former showed the Dow Jones Industrial Average making a new high at 162.31, followed by a plunge to 135.20 in late March. This dip was followed by no less than four tests of the February high, in August-September, 1926 (when it was exceeded slightly), December, 1926 and March, 1927. It was from that point that the market launched its now-infamous advance to September, 1929.

We will be the first to admit that there are differences between 1926-7 and the market we have seen since Spring, notably the fact that the early 16% drop in March, 1926 created a range much wider than today's, where the April low is only 9.6% below the high. Both markets, however, can be defined as trading ranges possessing a slight upward bias.

The second point concerns the likelihood of a repetition of the 1927-1929 experience, which, as we previously noted, would carry the Dow to the 4000-5000 range. Our readers will know that we are not now ready to take a firm stance on this point, since we feel that the nature of the 1986 trading range is a still-unanswered question. We admit, however, that we would be concerned about the possibility of an immediate (2-3 years) rise of such a magnitude, since we fail to see the economic justification for such an advance. We would, in other words, almost rather see a normal bear-market, cycle correction, which could then clear the way for better prices without overextension.

Finally, we must assess the possibility of a repetition of the post-1929 experience. Of one thing we are certain. If it comes, it will arrive in a form sufficiently different from 1929 to cause most of us to be unprepared. The unwinding of over-leveraged balance sheets, for one thing, should be quite unlike the liquidation of margin debt which took place in 1929-1932. Furthermore, the monetary tools now available (tools largely developed in response to 1929-1932) are sufficiently sophisticated so that an exact repetition of that deflation, when the money supply was allowed to drop by one third, is unlikely to be repeated. There exists more reason, it seems to us, to question the fiscal tools available. The desirability of a balanced budget, now exemplified by Gramm-Rudman, can be considered to be part of conventional wisdom. This is undoubtedly justified after more than two decades of excessive Federal spending. However, the adequacy of monetary stimulus has never been tested under severe conditions, and it might be that, under such conditions, fiscal stimulus would be a necessary accompaniment. Deficits, in other words, might be not bad medicine, but simply medicine long overabused. This we see as a possible chink in the protective armor.

Finally, we will once again stress that no prediction is implied by this letter or its predecessors. As usual, the stock market itself will provide us, in its follow-on to the current sideways market, with the first clue as to whether history is repeating itself.

AWT:ccg

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials	1792.74
S & P 500	235.89
Cumulative Index (October 8, 1986)	3077.83