TABELL'S MARKET LETTER

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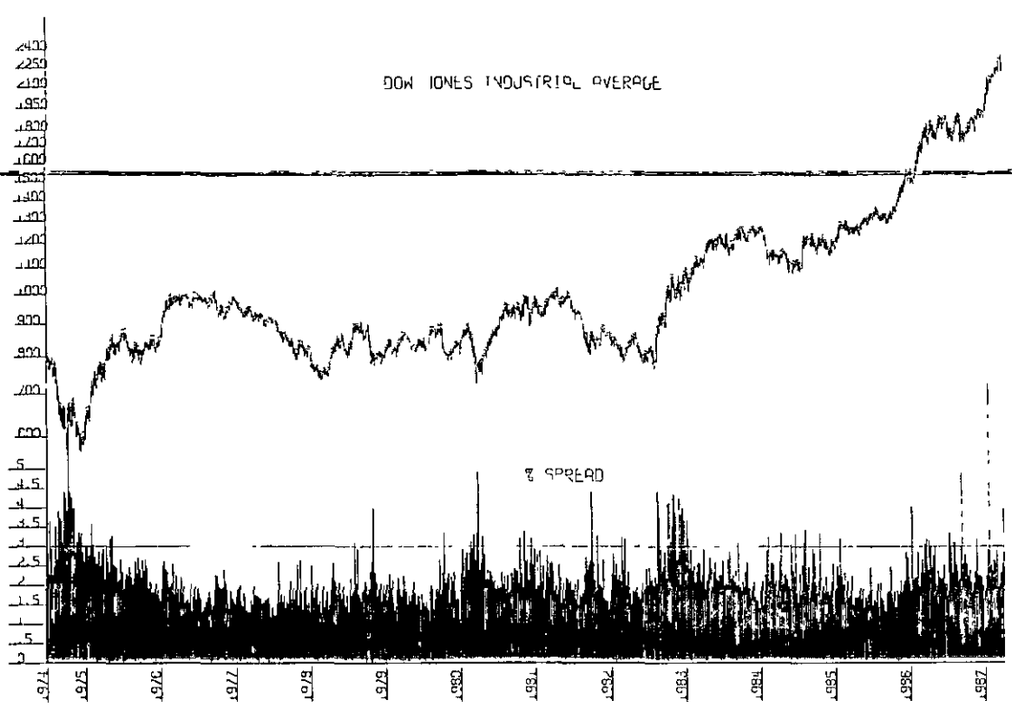
Recent market action has been, to say the least, interesting. March 30 managed to set some sort of Blue-Monday record, with the 30 Dow Jones stocks collectively opening 92 points below their previous close and the final figure for the Dow down more than 57 points. Three days of mild recovery followed, and then last Friday, after early weakness, exploded with an almost-70-point advance. Continued strength on Monday of this week produced a first-ever close above 2400, but this penetration held for only one day as the index backed off to 2339 yesterday.

Much of this action qualifies, by historic standards, as unusual volatility. Intra-day volatility is a subject we first examined at the end of January after the first phase of the extraordinary 1987 rise. We hypothesized, that, at the very least, an acceptable proxy for market volatility was the spread between the Dow's intra-day high and intra-day low expressed as a percentage of the close. Inspection seemed to indicate that anything above 3% for this statistic fell into the exceptional category. This threshold was exceeded on both January 22 and January 23, with the latter date setting a post-1974 record at 7.2%. More recently, the March 30 decline, the April 3 rise, and the April 7 drop also qualified as unusually volatile days.

Investigation indicated that such volatility had an almost uncanny forecasting record for as long as six months ahead. The chart below shows the Dow on a weekly basis from mid-1974 to date, with the vertical lines at the bottom showing the highest weekly figure attained by the high-low spread. It is apparent at a glance that such action has tended to precede upward markets.



There have been, in the period shown, 120 days when the high-low difference was greater than 3% of the close. On 111 of those occassions the Dow was up 125 trading days (approximately six months) later. The occurrence of high intra-day volatility, therefore, foreshadowed an upward market 92.5% of the time. By contrast, examination of all 3106 trading days since 1974 reveals that over the following six months the DJIA rose only 63.6% of the time. The likelihood of the association between volatility and market rises being a chance phenomenon would be analogous to the chance of drawing a sample of 120 marbles from a jar and finding that 111 of them were white when the jar was known to contain only 1977 white marbles and 1129 black ones. For statistic freaks the chi-square for this statistic is 43.17, suggesting that the probability of a chance occurrence is a great deal under 1 in 2000.

We confess that we have no rationale for this relationship despite the impressive statistical record. That record, however, suggests that the volatility displayed early this week indicates higher prices over the next six months.

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AWT:BH

Dow Jones Industrials (12:00 pm)	2338.21
S & P 500 (12:00 pm)	293.53
Cumulative Index (4/9/87)	3756.77