TABELL'S
MARKET
LETTER

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The frequency of apocalyptic market comment has, it appears to us, been increasing of late. The most recent example may be the front page of Wednesday's Wall Street Journal which headlined a story on the bond market with the pronouncement, "Debt-Securities Prices May Slide for Years, Many Analysts Think." The story went on to link the prospects for the stock market to the gloomy forecast for bonds. It is no criticism of The Wall Street Journal to suggest that, by the time a market opinion reaches the front page of that august publication---or, indeed, feature status in any medium with wide circulation---it may well be already discounted in the marketplace.

We are, incidentally, somewhat skeptical of the purported stock market-bond market linkage. There is no doubt that bond prices have moved down sharply, with the Dow Jones Bond Average having sold at 95.51 on February 9th and having closed last night at a new low of 84.13. Correlation with the stock market seems less than apparent when we note that, on February 9th, the Dow Jones Industrials were at 2176 .84, on the way to a high at 2722.42 just 3 1/2 weeks ago. By that time, the bond market had already completed 2/3 of its decline. We are being asked to believe, in other words, that having responded to a 7.6% bond-market fall by rising 25%, the stock market should now move lower in response to an additional 4% drop in bond prices.

The above is cited not in an attempt to be wildly bullish, but to suggest that market comment at this stage should lean more in the direction of circumspection than that of extremism. Our readers are aware of our belief that the equity market, based on historical valuation standards is, to say the least, fully priced. We continue in this belief despite the assorted rationales---breakup value, for example---currently being offered to justify present prices. We think it highly likely that the major averages may, at the moment, be forming a distributional top of some importance. We continue to think, however, that we are more likely to be in the earlier stages of forming that top rather than in the later ones. Looking at the short-term pattern, in other words, it may well be that current action consists of a test of the lows scored on the Dow last week. (Closing levels for the DJIA on Wednesday and Thursday were below their week-ago figures, but the September 8th intra-day low just under 2500 has not, as yet, been breached.) If this test is successful, a further test of the late August highs is hardly out of the question.

This attitude of wait-and-see is further justified, we think, by the fact that, at its lows of a week ago, the market appeared to be at least moderately oversold. On September 9th, the familiar 10-day total of advances minus declines sunk to -4771, some 23% of total issues traded. This hardly qualifies as a deeply depressed figure---in the past, negative levels of more than 30% have been standard at major bottoms---but it may rank as being sufficiently oversold in terms of the recent record.

Through 1974, it will be recalled, major lows were generally accompanied by climactic selling. This remained approximately true through the 1974 low but, beginning with the low of March, 1978, bottoms tended to be achieved by exhaustion rather than by selling panics. We had, in 1979, 1980 and 1981, climactic action taking place at intermediate lows rather than major ones, and, since 1981, we have seen no climactic lows at all. The September 9th figure constitutes the third lowest level in six years for the advance-decline oscillator, and the two previous occasions on which it was exceeded produced fairly decent short-intermediate term rallies.

Likewise, the downside volume percentage achieved on September 8th was around 82% of total volume, a reasonably high level, but not the 90+% that we have generally used to denote a sold-out condition. Volume action, therefore, like breadth, suggests that a minor low may be close but that an unusually strong rally is not suggested.

While a distributional pattern may be forming, in other words, we do not think that a serious drop is imminent less than a month after the averages have demonstrated sufficient momentum to generate an all-time high. We need, in other words, more evidence that that momentum has, in fact, been dissipated.

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AWT:lt

Dow Jones Industrials (12:00)	2535.08
S & P 500 (12:00)	316.66
Cumulative Index (9/17/87)	3959.01