TABELL'S MARKET LETTER

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Regular readers are aware of our view that the most probable stock-market scenario calls for short-term strength, but strength that is not likely, for the time being at least, to carry much beyond the vicinity of the August high. The week's action seemed to conform to this hypothesis as the DJIA posted a 40-point rally on Thursday, breaking out of a month-long base formation in, roughly, the 2500 - 2600 area. Interestingly, the upside objective of this base appears to be 2720, a level just about equal to the previous high. Our own further hypothesis is that this test, and perhaps further future tests, of the Dow peak just above 2700, will compose a top formation, not yet complete, which may, ultimately, suggest the possibility of a conventional bear market.

This thinking is buttressed by the continued abysmally poor breadth action which has prevailed since the August peak. It will be recalled that the last time our daily breadth index posted a new high was March 23, 1987, at which time the Dow was at 2363. By July, breadth had moved almost 40 points below that high and remained 11 points below it when the Dow peaked at 2722 on August 25. At the recent low, the breadth indicator was not all that far from its July bottom, and any new low in the near future would confirm an ongoing downtrend. Unless a dramatic reversal is seen shortly, it appears unlikely that any approach to new high territory on the part of the Dow will be accompanied by a breadth peak. This, of course, would confirm an ongoing divergence.

One of the most important tenets of breadth analysis, it should be remembered, is that highs in breadth indicators are likely to lead peaks in the Dow by a significant amount. As of August 25, 1987, the last DJIA high, the breadth high had led the Dow by 108 days. Today is the 134th day following that breadth peak, so that a move to new high levels by the Dow would probably lengthen the divergence. A comparable divergence preceding the November, 1983 - July, 1984 downswing lasted for only 115 days. Bear markets during the 1960's and 1970's tended to be led by breadth for slightly longer periods, but we have definitely moved, in our view, into the time range where a breadth divergence ought to disturb us.

New highs versus new lows, another series we have recently focused on in gauging the market's internal strength continues to show below-average action. The net difference of daily new highs and lows moved, last month, into negative territory for the third time so far in 1987. Like deteriorating breadth, such action has, historically, tended to signify underlying market weakness.

A broadened market top and an eventual conventional bear market---on the order of, say, a 20% decline, would not disturb us and would leave the market, we think, in a much healthier condition than that in which it now finds itself. This view puts us, we realize, on dangerous ground. There is a natural tendency---which has to be fought---to hope that the market will do what one wants it to and to seize on whatever shreds of evidence point in that direction. We hope we are not succumbing in this case, since at least a moderately convincing case for lower prices can, we think, be made.

Why should we view the prospect of significantly higher levels with some alarm? One reason relates to a study we began in early 1986 when we pointed out that the action of the Dow to that point showed what seemed almost eerie parallels to the market action of the early 1920's. Prices have diverged, recently, from the exact path traced out between 1921 and 1929 but they are still close enough for just about everyone who feels that stock-market history is important to have by now drawn attention to the similarity. The action needed to carry on the 1920's - 1980's parallel would, of course, be further strength to levels significantly above the already achieved highs around 2700. We would feel forced, therefore, to be less than enchanted were such strength to manifest itself without an intervening correction.

Higher equity prices, moreover, would, in terms of earnings and dividends, both relative and absolute, bring the market to historically dangerous levels---levels which have, in the past, produced important market tops. As technicians we realize that this sort of analysis, while undeniably possessing underlying significance, is less than helpful over the intermediate term, during which prices tend to be influenced to a greater degree by suppply-and-demand factors. These factors may be strong enough at the moment to move the market into new high territory. Such an achievement would bring us into totally uncharted waters. This is not impossible---it has already happened in Japan---but the risk produced by such an eventuality would be significant.

We are thus comfortable with the forecast outlined above, which suggests that a relatively non-dangerous cyclical top may be in the making. Should this scenario ultimately prove untenable, the implications would require reexamination at that time.

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AWT:ebh

Dow Jones Industrials (12:00)	2633.65
S & P 500 (12:00)	327.69
Cumulative Index (10/01/87)	4034.97