TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

600 ALEXANDER ROAD, CN 5209, PRINCETON, NEW JERSEY 08543-5209

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

October 16, 1987

The stock market, in this week's action, once again reminded us that it is not all peaches and cream and permanent profits. A 95-point decline on Wednesday was followed, yesterday, by a 57-point plunge, a drop perhaps even more frightening since most of it was compressed into the last half-hour of trading. At Thursday's close, the Dow was down 13.5%, the severest decline since November, 1983 - July, 1984. That drop of 15.6%, however, was a good deal less steep than the present one, since it lasted 164 trading days versus only 36 trading days so far for the current downswing, which, at this writing, appears still to be underway.

We do, honestly, hate to keep carping on this subject, but the one-day decline on Wednesday and the two-day decline ended yesterday were nowhere near the largest on record if measured properly in percentages rather than points. Wednesday's one-session fall of 3.81% has been surpassed by no fewer than 111 previous single-day drops since the modern Dow Jones Average was first computed. The two-day drop, 6.1%, has been exceeded 75 times in the same timeframe. Furthermore, the most recent instances of one and two-day drops greater than the present one should be within the memory of most investors, having occured just over a year ago on September 11-12, 1986.

It is, furthermore, not necessary to resort to meaningless figures such as point-declines, since, in terms of being unusual, recent action can stand on its own two feet. Although, as we noted above, this week's fall has been exceeded many times in the past, the bulk of these cases occurred prior to World War II. As we have tried to demonstrate many times in the past, this history is largely irrelevant today, since markets of the 1920's and 1930's were uniformly a great deal more volatile. There have been only four single-day drops greater than Wedensday's since 1950 and only fourteen of approximately the same magnitude (greater than 3%). Likewise, there have been only three two-day declines exceeding the current one since the 1950's and only eleven of the same approximate magnitude.

This fact, by itself, should tell us something, since we are able to go back and observe the aftermath of past similar declines. Most of them, we are happy to report, occurred around important market bottoms. In some cases, the bottoms could be associated with the end of a major bear market (May 28, 1962 and May 25, 1970). In other instances, large one- and two-day drops were reactions to unexpected events (the Korean War in 1950 and the Eisenhower heart attack in 1955). Since the drop so far, over 13%, qualifies as intermediate-term in scope, it is necessary to give some thought as to how and when it might reach a bottom.

As we have suggested in this space in the past, recent major lows have demonstrated characteristics quite different in today's institutionally-dominated market from those in previous past markets where the bulk of the trading was accounted for by individuals. In those olden days, a selling climax---consisting of a day or two of precipitous decline followed by a sharp recovery, both on heavy volume---was the normal indication of a bear market's end. However, the last such classic climax occurred in March, 1980, and the last at a major bottom was in May, 1970. More recent plunges---such as 1982, and 1984, and even, to a degree 1974---have terminated with downside exhaustion followed by unusually sharp upside action. Part of the difficulty at the moment is deciding what sort of bottom we are looking for.

To some degree, the action of the past couple of days suggests that we may be seeing climactic action for the first time in seven years. Thursday's volume of 263 million shares was important, not because it was the fourth highest in history (the three higher volume days having all occurred this year), but because it was some 50% above the most recent average---which average we compute using the prior 25 days. This level has indeed been associated with some lows in the past, but more important bottoms have generally occurred when volume spurted to twice its recent average. Likewise, the 1400 plus issues that declined on Wednesday and Thursday were about 70% of all issues traded, versus the 80% level which has tended to characterize climactic bottoms. By contrast, if the bottom for this market is to conform to the most recent specimens, one would expect that downside action will, eventually, simply run out of steam, and, as was the case in September, 1986, whatever low is reached will be marginally tested.

We suspect that one or the other forms of market reversal will take place not too far from current levels and in the not-too-distant future. The major averages have all reacted to important support levels, these levels being delineated by the highs reached on April 6, 1987, the subsequent lows, achieved in mid-May, and the June breakouts which produced to the current advance. This support area exists at 2405 - 2215 for the Dow. For the S & P 500, it is between 302 and 278. In the case of the Dow Transports the support range is 961 - 908.

We think, in other words, that the support levels mentioned above should, minimally, produce breathing space which can be used to assess whether or not a true reversal has taken place. Needless to say, we expect this sort of analysis to be the theme of this letter over the next few weeks.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

AWT:ebh

Dow Jones Industrials (12:00)	2342.20
S & P 500 (12:00)	294.60
Cumulative Index (10/15/87)	3763.01