TABELL'S MARKET LETTER

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October 23, 1987

A few random thoughts on being present at history.

We have, in the past, castigated some of our colleagues for measuring declines in terms of points, so as to equate what were essentially minor downswings with the granddaddy of all market crashes---1929. This subterfuge is no longer necessary. The market managed to shatter, last week, most of the records achieved 58 years ago. Monday's 500-point drop in the Dow took it down 22.61%, almost twice the 12.82% of October 28, 1929. The 26.17% fall over Friday and Monday was a two-day record, bettering the October 28-29, 1929 drop, 26% to 23%. Only one 1929 mark appears intact. The entire drop from September 3 of that year through November 13 took the average down 47.87% in 56 trading days. The fall from August 25 through October 19 of this year has been, so far, only 36.15%.

Our initial feeling early this week was the amazement at the fact that, during the debacle, life seemed to go on. The magic year, 1929, had been drummed into our consciousness for so long that we expected everything to come to a screeching halt. Network anchormen, however, seemed uncomfortable with being required to treat the market's fall as a lead story and moved quickly along to Bernard Goetz, the Persian Gulf, and the World Series. There must have been, in 1929, some discussion of such unrelated items as the Philadelphia Athletics' comeback from an 8-0 deficit against the Cubs in the fourth game of that year's series.

If there are any minor beneficial side effects of the collapse, one such might be the stamping out of one of the more exotic weeds lately transplanted from the groves of academe to Wall Street. This is the hypothesis that markets adjust instantaneously to all known information. We would welcome knowing just what piece of information it was that emerged over last weekend and made stocks worth, on Monday, only four-fifths of their Friday price. And let us, for heaven's sake, forget the trade deficit. Blaming the decline on that news is akin, in the words of the late Red Smith, to blaming the Johnstown flood on a leaky toilet in Altoona.

If cause is needed, it is our own hypothesis that the drop constitutes a failure on the part of the market mechanism we have allowed to accrue over recent years. Another recent import from the graduate schools has been the financial community's love affair with derivative products and their application to esoteric techniques such as portfolio insurance, which may be simply defined as an investment approach based on the premise that there is such a thing as a free lunch. The realization that derivatives may, indeed, be a destabilizing force emerged in many quarters this week, and we are inclined to agree with it.

Returning to market history, one point, we think, deserves emphasis. This is that the phenomenon popularly referred to as "1929" really consists of two largely unrelated events which took place over a much longer timespan. The first is the market collapse which took place between September 3 and November 13 of that year. This phase, unpleasant though it was, was probably unavoidable, and indeed was followed by an almost-50% market rally. It is what occurred afterward that remains in most people's memory when the events of 58 years ago are recalled.

This was the emergence of the Great Depression, which carried the market down slowly, on ever-diminishing volume over a period of more than two years, to a level 90% below the 1929 highs. The truly tragic part of the collapse ended, not with a bang in 1929, but with a whimper in 1932. Most authorities, it must be noted, feel that the second phase was not inevitable, and we would contend that this also applies to today's market.

Against this background, it is necessary to offer some thoughts as to the future. Explosive as it was, we can and should place this week's action within a conventional, technical-analysis framework. What we witnessed between Monday and Wednesday was, quite simply, a selling climax---bigger, perhaps, than like events which have preceded it, but a selling climax nonetheless. Two of the characteristics of such a climax are a sharp decline on record volume and a subsequent rise on approximately equal volume retracing an important portion of the loss. This certainly describes last week's action, and it may well be that the rallying phase ended on Wednesday afternoon. The last part of a climax bottom is, generally, a test of the previous low, quite often, but not always, involving a new low not too different than the initial one. Such a test could occur, we think, within the next one to three weeks. If it does, it will, however agonizing, constitute an opportunity.

The above covers only the short-term. It is, we think, impossible to assess the longer-term outlook at this time. We noted above, our feeling that 1930-32 was not an inevitable result of the 1929 crash. The next year will tell us how well we have learned the lessons of history.

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AWT:ebh
Dow Jones Industrials (12:00) 1948.11
S & P 500 (12:00) 250.39
Cumulative Index (10/22/87) 3135.75