TABELL'S MARKET LETTER

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Our readers are aware that, as a rather memorable 1987 draws to a close, tradition dictates the issuance of a 1988 forecast. This task tends to vary in difficulty. Sometimes December will find the stock market in a clearly identifiable trend, and the forecasting task becomes relatively simple. Other Decembers have produced a technical outlook somewhat more clouded, and, in such cases in the past, it would have been our preference not to issue any forecast at all. Such junctures have occasionally resulted in predictions which turned out to be gloriously wrong.

One such case occurred in December, 1975 when, with the Dow having posted a steep gain in the prior year and beginning to show signs of exhaustion, we projected that 1976 might be an "inside" year, one in which neither the 1975 high nor low would be exceeded. This particular fearless forecast was made on December 26, with the Dow at 854 versus a 1975 high of 881. As 1976 began, the market took off like a rocket, reaching a new high on the third trading day of January, and moving above 1000 in early March. One of our colleagues has called us "Mr. Inside" ever since.

However, despite having been once burned, we think the "inside-year" forecast is, at this point, the most plausible one for 1988, and once more we are willing to stick our neck out with such a forecast.

It has, actually, a few things going for it. The 1987 closing high (2722.42 on August 25) and low (1738.74 on October 19) are further apart than has been the case in any year since 1938, the high figure being 156% of the low one. Along with many similar measures, it has the flavor of days long gone by. Such a spread has not occured since 1938, but, between 1897 and that date, a wider annual range occurred on no fewer than 13 occasions.

Leaving volatility aside for a moment, the current outlook is, we think, suggested by a number of fundamental and technical indications. The Dow, as we are painfully aware, reached a low on October 19 and a subsequent high of 2027.75 two days later. For the remainder of 1987, tnat range has contained the average, with an apparently successful test earlier this month. Given increased daily and intra-day volatility, an extensive potential base formation has been traced out in just over two months. If we are to assume that improving technical action over the past two weeks forecasts an imminent breakout from this range, the pattern is broad enough to suggest upside objectives in the 2500 - 2600 range, significant indeed, but still well under the 1987 high. What might happen thereafter can only be guessed at, but such a rise, followed by the formation of a new pattern of some sort, could well occupy a major portion of 1988.

The argument against a new peak next year can also be adduced from a valuation approach. As we discovered, much to our regret in the fall, p/e ratios for the major averages were, in mid-summer, 1987, at historically high levels and yields had reached extraordinary lows. As we write this, reasonably optimistic forecasts for 1988 earnings are being issued. In the past, however, market optimism, once shattered, rarely repeats its former excesses for many years. We would, therefore, expect rising earnings to be valued more conservatively than was the case a year ago.

Along with arguments favoring the absence of a new high in 1988, we should also examine the case for projecting no significant new low. Such a case can, we think, be drawn from the improving technical action demonstrated over the past fortnight, which at least suggests that the eventual breakout from the 1987 trading range will be on the upside. Needless to say, our current forecast would have to be radically revised were a breakout attempt to fail and the expected strong year-end rally not to be forthcoming.

As is the case with the first part of our forecast, fundamentals also seem to argue that the 1987 low might hold. Readers know that we have been forced to compare the present market with that of 1929, and that it is our strong belief that both the initial 1929 break and the October 1987 meltdown were essentially technical, market-related phenomena. The 1930-1932 collapse, on the other hand, was based on a whole series of economic events which did not, we now know by hindsight, necessarily have to occur. The great depression, which dragged stock prices to further new lows for two long years, arose from failure to understand the severity of the economic forces at work.

The risks, at the moment, are real, but it is, in our view, possible to avoid a similar failure in the year ahead, although it is too early to ascertain whether we will be so fortunate. If such is the case, however, the pattern of the 1930's will probably not repeat itself, and the 1987 low could effectively hold.

ANTHONY W. TABELL
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Dow Jones Industrials	2005.63
S & P 500	253.32

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WE WISH YOU ALL A HAPPY AND PROSPEROUS NEW YEAR!