TABELL'S MARKET LETTER

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Although this letter, over the course of 42 years, has devoted itself largely to technical analysis, we have never made the claim that technical work possesses all the answers. We have, rather, leaned toward a more modest affirmation, which, simply, states that such analysis should constitute an integral part of the investment-decision-making process.

At the moment, it must be confessed, technical indications remain somewhat inconclusive. It now becomes apparent that the upside breakouts by many averages some two weeks ago, were false, and almost all market indices have pulled back into trading ranges and currently find themselves somewhere between their October 19 lows and recent highs. We think there is a reason for this, and it involves making the distinction between market-related and external phenomena. Future prospects in a number of areas external to the market seem, at this point, to be uncertain, and it may well be that this is causing the volatile backing and filling which has been the central feature of trading for the last three months.

The necessity for distinguishing between the two sorts of phenomena emerged, in our opinion, with comparison of the current market scene to that of the 1920's, a comparison, which has, naturally, occupied a fair amount of space in recent editions of this piece. We have made the point that we considered the drop from 381.17 in September, 1929 to 198.69 in November to be a product of factors internal to the market itself. We now know, all too well, that the villain was a wave of rampant speculation fueled by the presence of ridiculously low margin requirements. The illusion that the stock market was a royal road to the riches, had, we think, been dissipated by November, 1929, once the Dow had been trimmed by some 48 percent. Following that November low, the market staged a reasonably impressive rally which lasted some six months and regained approximately half the ground lost.

It was at this point that factors totally outside the stock market began to take over. By April, 1930, it is now apparent, economic contraction on an unprecedented scale was underway. As time went on, it became equally obvious that the tools then available to cope with a major depression were inadequate for the task.

Indeed, we now realize in the light of history that, in many areas, the proper action would have been the direct opposite of the course actually taken. Attempts to balance the budget were made at a time when, it is agreed, fiscal policy should have provided a stimulus. Congress responded to a growing trade deficit by raising tariff barriers sharply, and finally, by 1933, the Fed had allowed the money supply to drop some 30 percent. Given these wrong-headed policies, depression became inevitable, and falling stock market prices between 1930 and 1932 did nothing more than reflect that depression.

Like the one in 1929, the market break between August and October of last year was, in our opinion, a market-related phenomenon. Speculative fever was as high as it had been 58 years before, except that this speculation was being carried on by supposed professionals rather than individuals. Due to the introduction of derivative products, large amounts of stock could be controlled by small amounts of money and, as the market broke, trade deficits were featured on the front pages of the financial press. By October 19, however, the market's internal problems, as in 1929 - 1930, had, in our opinion, been largely resolved, however painful the process. What remains to be seen is whether or not external depressants on the scale of the 1930's will emerge.

A number of outside factors remain, we think, uncertain. Opinions differ, for example, as to whether the November trade figures signify a decisive reversal, or only a random blip in a continuing downtrend. The problem of third-world debt, obviously, remains, although the recent proposal with respect to the Mexican component thereof may be a blueprint for the best possible solution. The levels for other sorts of debt, are, moreover, just as disturbing. Leverage created by acquisitions and buyouts, for example, has not yet become a terribly onerous burden for creditors, but it could, ultimately, do so.

The worries enumerated above, legitimate ones, in our view, are what now overhang the market and cause the current confusing patterns of technical behavior. Ultimately, present economic fears will either dissipate or prove to be justified. The market's technical action should, at some point, foreshadow one of these two outcomes.

ANTHONY W. TABELL
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AWT:ebh

Dow Jones Industrials (12:00)	1886.77
S & P 500 (12:00)	244.57
Cumulative Index (1/20/88)	3208.66