TABELL'S MARKET LETTER

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We indicated in this space last week that much of the uncertainty in the current market outlook could be traced back to uncertain fundamentals. That uncertainty, in turn, may be due to the fact that interpretation of fundamental data often seems to be more of an art than a science. Consider, for example, the following recent news items.

Item: It was announced on Wednesday that Gross National Product grew at a 4.2% annual rate in the fourth quarter, one of the best increases in a number of years.

Item: On the previous day, it was reported that durable goods orders had risen 6.7% in December, the largest rise in more than a year.

Item: A week ago, four major computer companies reported sharply increased earnings for the latest quarter.

Item. On the previous day, the leader in that same industry, IBM, weighed in with a 50% rise in net income.

Let us now consider the market's response to the aforementioned information. The sharp rise in GNP produced a stock market which, under the influence of program trading, dropped almost 10 points. Higher durable-goods orders were followed by a 26-point drop in the Dow. Of the major computer companies, Apple, whose earnings almost doubled, dropped three points. Microsoft reported earnings up 79% and fell 3 1/4 points. Unisys, showing a profit versus a loss last year, dropped 1 5/8 points, as did Motorola, whose earnings had posted a 62% gain. With these issues posting downside leadership, the DJIA dropped 57 points. Finally, the sharply-improved IBM earnings caused the stock itself to fall 6 points, while leading the Dow to a 27-point decline.

Now, we are perfectly willing to agree that the proposition that rising earnings or improved economic statistics should always be followed by stock-price rises is a fairly simple-minded one. Indeed, all sorts of sophisticated rationales were cited for the stock-market results that seemed so perverse. Thus we learned that the GNP rise was based largely on inventory build-up and that the unexpected durable goods demand was largely due to aircraft bookings, which tend to be erratic. Analysts were quoted as saying that the 62% earnings rise in Motorola was less than expected, and therefore, prompted disappointed selling. According to the Wall Street Journal, however, Apple's earnings increase exceeded the most optimistic expectations, yet failed to keep the stock price from plummeting. In the same vein, the Journal quoted analysts as saying Microsoft results were "fabulous" and "absolutely awesome". The stock's reaction could hardly be so described. Finally, it was explained that IBM's earnings rise was largely due to lower taxes and should, therefore, be discounted.

Along with upside-down reactions to what seems to be good news, the market also appears to be becoming confused as to just what sort of external statistics it should be responding. We remember being instructed last year that a better bond market was the sine qua non for a rising stock market. Equities peaked on August 25 last year following a bond market high in July, at which a representative U.S. Treasury issue, the 8 3/4's of 2003-08, sold over par. The low for these bonds on October 16 was under 86, thus, apparently confirming the correlation between the bond market and the stock market. What remains unexplained, however, is the fact that the bond is again above 100, with the stock market, for three months, having done nothing whatsoever. There have been numerous days during the last quarter when bond and stock prices moved in opposite directions, something that would have seemed inconceivable in the first six months of 1987.

It may well be that the bond market's usefulness as a stock-market barometer is coming to an end, as was the case with the money-supply barometer, which had everyone bemused a couple of years ago. Remember the money supply? We waited with bated breath for the figures to be released each Thursday afternoon. Increases regularly brought the stock market to its knees, on the theory that Mr. Volcker, then the resident ogre at the Fed would attempt to counteract the rise by tightening monetary strings, thus, in some magic way, causing the stock market to fall. Declines in the money supply regularly produced stock market rises. Such, however, does not appear to be the recent case. Most monetary aggregates have, lately, been plummeting without any noticable upward effect on stock prices.

It was Lord Keynes who likened the stock market to a peculiar form of beauty contest in which the object of the exercise was not to pick the most attractive girl, but to guess which lady the other judges would choose as most attractive. Such seems to be the case at the moment, with stock investors apparently unsure as to what numbers they should now be paying attention. There is, really, nothing unusual about this sort of confusion. The central tenet of the technician has always been that investor confidence is an important criterion for determining stock prices. It is hardly surprising that confidence should be in a state of shock following the action of last October. Technical work will, we hope, give us some clue as to when that confidence is returning and making stock buyers likely to respond more favorably to improved fundamentals.

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AWT:ebh

Dow Jones Industrials (12:00)	1934.84
S & P 500 (12:00)	254.28
Cumulative Index (1/28/88)	3300.60