**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

March 4, 1988

Last week's market action was, in a way, typical of 1988 behavior so far. Pronounced improvement took place, but that improvement was hardly of the sort calculated to induce euphoria. The feature, of course, was Monday's trading, in the course of which the Dow posted a 48-point advance to a new, post-October-1987 high. However, little or no follow-through was observable over the rest of the week.

Despite this, Monday's strength was impressive enough. In attaining new peaks, the Dow followed the S & P Composite and Industrials, both of which had earlier moved into new high territory. Transportation averages have been outperforming the market for an even longer period. It is only the interest-sensitive utility and financial indices which have failed, so far, to push to new peaks.

Those averages which have moved recently to new highs were bettering levels which, for the most part, were achieved in early January. The two months that have passed since that time have not, in our view, constituted a broadening of the base pattern, but, rather, a test of support confirming the early January breakout. Thus, the upside targets mentioned back in January still appear to be valid ones. These targets---2600 for the Dow, 320 for the S & P Composite, and around 1000 for the Dow Transports---are uniformly just under 1987 highs. Individual stock patterns, in our view, confirm targets of this magnitude, with a large number of stocks now finding themselves in intermediate or minor uptrends, but with the overhead supply from 1987 tops still to be breached.

It is possible, moreover, that attainment of those upside targets could require both time and rotation of leadership. As noted above, confirmation of the January breakout required almost two full months of market action. If this sort of thing continues, the time required to mount a full-scale test of the highs could be reasonably lengthy.

More and more, the market pattern, as it develops, seems to confirm the suggestion of our year-end forecast, that 1988 might be an "inside year", one in which the year's high was below the August 25, 1987 peak of 2722.42 and the low remained above 1738.74, the close of October's "Meltdown Monday" If this were to prove to be the case, 1988 would be the seventh inside year in the last sixty, the previous ones having occurred in 1939, 1947, 1967, 1975, 1979, and 1984. Those familiar with market history will note that almost all of these were years following major bear markets, a description which will certainly be applicable to 1988.

There remain problems in fitting projected 1988 action into a broader context. The first and most obvious problem which arises is that, if no new low is going to be made, the completion of a cycle bear market required only the 38 trading days between August 25 and October 19. There is, as we have noted, some precedent for this, although it is somewhat sparse. If we can swallow this pill, we can then assume that a full-scale market cycle was completed last October. Its beginning would have been July, 1984, and the resulting 39-month length is comfortably within historical bounds. We have reiterated our belief that a new, secular stock-market trend began in the 1980's, but the sort of flat-to-firm market projected for the remainder of this year does not help us in deciding just what the parameters of that secular trend might be. We may be well into the 1990's before we can define the super-cycle pattern with any assurance.

We have, since October, been leaning heavily on historical analogy in this space, and we suspect it may be advisable to depend less and less on this sort of analysis as time goes on. It was all too easy---both for ourselves and or others---to compare the October-1987 break to 1929 and we, along with our colleagues, uniformly did so. History, however, never repeats itself exactly, and the 1929 analogy may prove to be less and less useful.

Two years ago, in discussing 1929, we suggested that any repetition thereof would assume a different shape. We are all aware of what the 1930 - 1932 liquidation of margin debt looked like. Any comparable liquidation in the 1980's or the 1990's, is likely to take place in debt incurred to finance takeovers and leveraged buyouts. It is less than encouraging to note that this sort of activity seems already to have returned unabated to its pre-October levels. The ultimate liquidation of the resultant debt, if it is to occur, may well produce a market scenario quite at variance with historical analogies.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

| | |
|---|---|
| Dow Jones Industrials (12:00) | 2042.27 |
| S & P 500 (12:00) | 267.09 |
| Cumulative Index (3/3/88) | 3593.25 |