TABELL'S MARKET LETTER

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What if it doesn't matter at all?

We are referring, in this case, to the market crash of October 19, 1987, and we want to explore, at least, the theory that the crash may, unexpectedly, produce no really significant aftereffects. The argument can be advanced that this has been the case to date. For all of the fireworks of last October it is necessary to recall that 1987 will go down in history as an up-year for the stock market. The Dow currently finds itself at levels it attained for the very first time in January, 1987. Is it conceivable then, that the period from early 1987 to date, which saw the DJIA advance to over 2700 in the first eight months of last year and then give up almost 1000 points, more than half of them in a single day's trading, will wind up being recognized as only a blip on some sort of longer-term market trend?

Such a theory hardly seemed plausible at the moment of the crash. The natural reaction, after October 19 had occurred, was to relate it to what was, in fact, the only truly comparable period in stock-market history---i.e., 1929. Our own reaction was to produce just such a comparison. We noted on October 23, "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%". This comparison, of course, refers only to stock-market trading occurring over one week in October, 1929. We have set forth repeatedly, in this space, our own belief that most people who use the 1929 appellation today are in fact, consciously or unconsciously, using it as a code word covering a great deal more than than a sharp drop in the stock market which took place 59 years ago. They are certainly referring to, at the very least, the entire market collapse, which, with a total absence of fireworks in the latter stages, took the Dow from 386.10 in September, 1929, to 40.56 in July, 1932.

Indeed, 1929-as-a-code-word covers even more than just the stock market experience. It involves the greatest economic contraction in U.S. history, a depression in which Gross National Product was cut in half over a three-year period. It probably includes also the almost-ten-year aftermath to that depression, which saw only a modest recovery, and which included yet another severe contraction in 1937-1938. Indeed, we tend to agree with the theory which holds that only the stimulus of World War II, more than 20 years later, was able to bring the American economy back to full resource utilization.

Thus the market collapse of October-November, 1929, many would contend, was nothing more than a trigger. It acted only to set off a chain of events which essentially continued through the entire decade of the 1930's. Many forecasters seem to feel that the 1987 stock market may also carry the seed for a series of equally unpleasant future phenomena.

So far, such phenomena have been non-events. We worried in December about the effects the crash would have on Christmas sales. There was no such discernible effect. The same was true of housing starts. Indeed, the only area of the economy obviously affected by the crash so far has been the stock market itself. We noted last week the uncanny parallels between market action in 1987-1988 and that of 1929-1930. Until this spectre is laid to rest, there will exist justifiable concern regarding both the market and economic futures.

Meanwhile, the market can be said to have a few things going for it. Foremost is the aggregate of individual base patterns for many stocks, stocks which show sufficient accumulation to suggest, at the very least, a test of former highs. As we have noted, upside breakouts from such patterns have not been common, but the patterns, meanwhile, continue to broaden. We are, at the same time, looking at the second half of a Presidential election year, a period, which, historically, has tended to be a good one for the stock market. If the theory of contrary opinion is to be believed, the current plethora of bearish commentators suggests that stock-market surprises might come on the upside rather than the downside.

None of the above represents a forecast, since we continue to feel that uncertainties remain far too great to warrant an aggressive investment posture. It is meant, simply, to suggest that an hypothesis calling for an extended upside move at some time in 1988 is not totally untenable.

ANTHONY W. TABELL
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AWT:ebh

Dow Jones Industrials (5/12/88 close)	1968.00
S & P 500 (5/12/88 close)	354.86
Cumulative Index (5/11/88)	3645.69

Note: Due to the writer's attendance, along with his associates, at the annual Market Technicians' Association seminar, the above remarks were prepared on Wednesday, May 11.