TABELL'S MARKET LETTER

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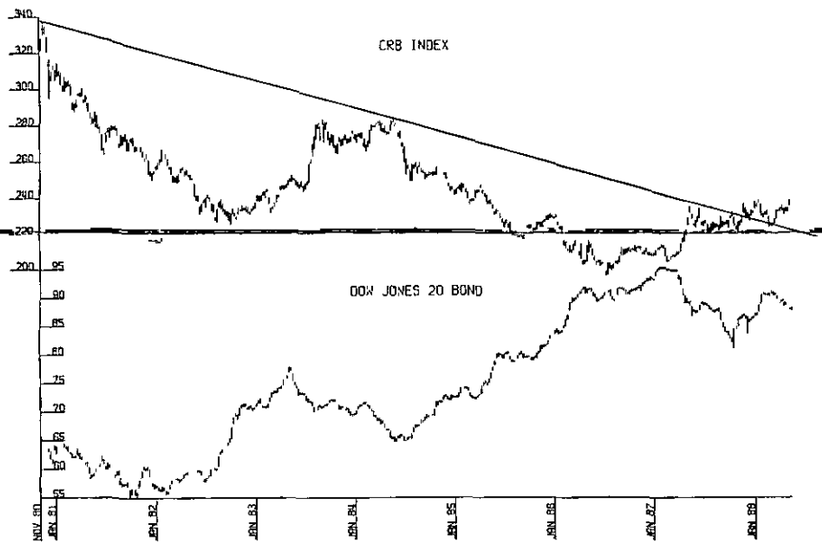
The stock market's tendency toward perversity---some would even say irrationality---was amply demonstrated in this week's trading. We have had hammered through our skulls over the past six months the absolute necessity for reversing the trade deficit before any stock-market progress could take place. The recent release of March figures showed, for the first time, real improvement in the trade numbers. The Dow put on a two-hour rally of some 20 points and then collapsed.

However, the purveyors of conventional wisdom are never at a loss. A broad-tape news story conceded that the improvement "underscores the increasing competitiveness of U.S. exports...but it also signals strength in the economy that could produce higher inflation". Presto-changeo, inflation became the operative bugaboo, fuel being added to the fire by new lows in the unemployment rate. Stocks, obviously, were going down because the economy was too strong. Got it?

Our own major fear (fear, not forecast) regarding the stock market has always been deflation, rather than its opposite. Martin Pring, in an excellent speech at last week's Market Technicians' Association seminar, pointed out that commodity prices and bond yields---which should fall in a depression---both *showed potential very long-term tops. However, the shorter-term outlook for these* series is beginning to seem just the opposite of toppy and may explain the current inflation fears.



The CRB Index of commodity prices this week confirmed penetration of a downtrend line going back to its November, 1980 high, and the short-term course for this most sensitive of inflation indicators ought to be upward. It should be remembered, however, that 1981 - 1986 saw a decline in the index from 340 to under 200, a drop of some 40 percent. It is conceivable that a long-term trend toward lower prices remains intact.

As the chart also suggests, bond prices (we utilize the Dow Jones 20-Bond Average as a gauge) have been tailing off for the past few months. But this fall can be viewed simply as a retreat from the overhead supply remaining from the period when the average traded well over 90 in 1986 and early 1987. At the moment, the chart suggests strong support just under current levels and would point to significantly lower interest rates only if the October lows were to be penetrated.

As technicians, thankfully, we are exempt from worry as to whether inflationary or deflationary worries should be the operative ones for the current stock market. As our readers know, we foresee a continued trading range, possibly continuing for the entire remainder of 1988. During this range, hopefully, the market's ultimate direction will become evident. This week's switch in excuses for a weaker market does not alter that technical picture.

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Dow Jones Industrials (12:00)	1959.88
S & P 500 (12:00)	252.62
Cumulative Index (5/19/88)	3631.44