**TABELL'S MARKET LETTER**

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The simplest question which can be posed to the market analyst at any given time is, "Are we in a bull or a bear market?" As simple as the question may be, it is often difficult to answer and, indeed, such is the case at the moment. An attempt at plumbing the mystery in summer, 1988 is, moreover, particularly instructive, since a byproduct of that attempt is the discovery that some of the trading patterns which have lately been confronting the technician are, historically, largely unprecedented.

It is necessary to start with a benchmark, and an obvious one, of course, is October 19, 1987. That day's DJIA close was 1738.74. On July 5, less than two weeks ago, the average chalked up a post-crash high of 2158.61. The interval between those two points thus constitutes a 24.15% advance, requiring 179 trading days. With these simple facts, we can begin our analysis.

It probably makes the most sense to begin with the hypothesis that an ongoing bear market exists. Were this premise to be the correct one, the 179 days between October 19 and July 5 would have to be considered a bear-market rally. What are the precedents for a rally of this length and extent?

Everybody's favorite precedent was, until recently at least, the advance from November 13, 1929 to April 17, 1930. It took the Dow up 48% and recovered more than half the ground lost on the 1929 break. That advance, however, was over in 124 trading days, eleven weeks less than the present upswing. Indeed, had today's market followed the 1930's pattern, it would, as we noted a few weeks ago, now be posting new lows---below those of October.

When one applies a filter of, say, 20%, to the markets of the 1930's and 1940's, one does find a fair number of advances during bear markets of approximately the current magnitude. In addition to November 1929 - April 1930, there were four subsequent cases in the 1929 - 1932 downswing. However, they ranged in length from 22 to 56 days. The 1938 - 1942 bear market saw a pair of greater-than-20% bear-market rallies. They were 127 and 131 days long. Since 1942, it has been appropriate to use a 20% filter as the prima-facie definition for bull and bear markets. There has, therefore, never occurred a bear-market rally that has demonstrated the staying power of the present advance.

Let us examine the alternative hypothesis. It then becomes necessary to ask whether a 24.1%, 179-day advance is consistent with what tends to happen at the start of a bull market. The table below shows, for each of the fourteen major bull markets since 1932, the extent to which the Dow had advanced in the first 179 trading days. It is interesting that, in half of them, the advance was roughly comparable to the present one. The two bull markets beginning in the 1930's, of course, showed much larger rises, and three of the five major upswings since 1970 also began with larger advances. We will return to this point in a moment.

| Bull-Market Start | For First 179 Days % Advance | 4% Corrections | Bull-Market Start | For First 179 Days % Advance | 4% Corrections |
|---|---|---|---|---|---|
| July, 1932 | 93.1 | 9 | June, 1962 | 28.5 | 2 |
| March, 1938 | 55.8 | 6 | October, 1966 | 22.2 | 2 |
| April, 1942 | 26.2 | 0 | May, 1970 | 39.7 | 2 |
| October, 1946 | 13.1 | 4 | December, 1974 | 52.7 | 4 |
| June, 1949 | 26.8 | 0 | February, 1978 | 22.3 | 4 |
| September, 1953 | 28.6 | 0 | August, 1982 | 55.6 | 6 |
| October, 1957 | 14.8 | 2 | July, 1984 | 19.6 | 3 |

The present market has advanced 24% in 36 weeks, but the advance has been a comparatively volatile one. Volatility can be measured by the application of a small filter---for example 4%---to the trading period in question. This technique reveals that there have been no fewer than six corrections of 4% or more since the rise began last October.

This is a fairly large number as the table also shows. It has been equaled or exceeded only three times---in 1932, 1938, and 1982. In each case, the rally that took place over the period was considerably greater than the rise to date. By contrast, the advances during the 1940's, 1950's, and 1960's tended to have far fewer corrections in their early stages. It must be noted that the same can be said of the bear-market rallies during the 1930's.

It seems to us that the overall impact of the above figures forces one in the direction of optimism, but with just one caveat. The modest advance that has taken place so far appears characteristic of many of the post World War II bull markets. Those initial phases, however, were quite steady with few significant corrections. When compared with the more volatile advances of the 1930's and the 1980's, where numerous short-term corrections were the norm, the present-day rise seems relatively weak. To this extent, it would seem, we find ourselves in uncharted territory.

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AWT:ebh
Dow Jones Industrials (12:00) 2108.82
S & P 500 (12:00) 269.86
Cumulative Index (7/14/88) 3915.18