TABELL'S MARKET LETTER

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Yesterday's Wall Street Journal, appropriately in our view, devoted its lead story, plus an inside full-page spread, to celebrating the anniversary of the stock market's all-time high, at 2722.42 on the Dow on August 25, 1987. The article pointed out, correctly, that the shadow of what transpired two months later, the 500-point drop on October 19, still looms over today's stock market. It is, therefore, worth considering just what the presence of this spectre means from a technical point of view.

It is obvious to any experienced market analyst that the technical damage done during September - October 1987 was largely unprecedented. All one had to do was to thumb through a portfolio of charts following last October 19, and it became apparent that those charts, collectively, were at a state different from any that had existed within the memory of today's market professionals. Certainly, in long years of bull and bear markets, there had been innumerable past instances of stocks breaking down from major top formations and possessing absolutely nothing in the way of new, long-term bases. Never before, in our own memory at least, had so many stocks found themselves in this position at the same time.

The only previous phenomenon comparable to last October was, of course, October - November 1929. The 22.61% fall of last October 19 was almost twice as great as 1929's largest single-day decline, and the two days of October 16 and 19, 1987 saw a larger drop than October 28 and 29, 1929. Overall, the 1929 drop turned out to be bigger, since, after a two-day rally, that market turned down again and, on November 13, found itself at a new low, 48% below its early-September peak. In contrast, the October 19, 1987 close, 36% below August 25, turned out to be the final low of that decline.

A chart in the Journal article depicts this graphically. In addition, it makes another, and more important, point. The rally from November, 1929 to April, 1930 lasted for six months and then expired. On August 12, 1930, three weeks prior to the anniversary of the 1929 high, the Dow had pulled back to a level some 43% below that high, comparable to a figure of 1527 for the Dow today. By October, 1930 a new low had been posted, and the dreary decline to the lows of 1932 was underway. By contrast, today's market, a year after the high, remains well above its nadir of last October.

As our readers are aware, this letter was discussing the possibility of a 1929 recurrence back in early 1986. At that time, we made the point that a repetition of September - November, 1929---purely a stock-market event---was a possibility. This, indeed, took place. We also suggested that the aftermath might turn out to be quite different from that of 1930 - 1932. It is thus interesting that the current market pattern is beginning to diverge from the earlier one.

If we are to reject the 1930 - 1932 scenario, what, then, is the aftermath for 1987 likely to be? We may have stumbled upon a clue in last week's letter when, it will be recalled, we looked at what appeared to be a high daily level of issues trading unchanged from their previous day's prices. We tried to quantify this phenomenon historically, but it is also interesting to consider intuitively just what this particular manifestation might mean. It certainly suggests, it seems to us, an absence of either buying power or selling pressure in the case of a large number of stocks---in other words, a lack of market interest or, in any case, a lack of interested market players. This is one definition of a dull market. The Journal article came up with a number of others including lowered volume, especially after adjustment for dividend captures and index arbitrage. It becomes significant, then, that our study last week of protracted periods with large numbers of unchanged stocks suggested that, once such periods were underway, they had tended to last for long stretches of time.

One such period, indeed, persisted for six years, from September, 1939 to September, 1945. Interestingly enough, the Dow, well toward the end of this period, was at the same level at which it had started, a major market bottom having occurred just about at the mid-point of the interval. Essentially, it tended to be a period of sharply reduced volume with protracted periods when well under a million shares changed hands. The same can be said of the two-year stretch between 1948 and 1950, essentially a base-building period for a later major advance.

When required to issue a market forecast for 1988 at last year-end, we suggested that this year, given the technical damage which had taken place, might well be occupied largely with rebasing, thus turning out to be an "inside year", one in which neither the 1987 high or low was exceeded. This forecast has proved to be correct so far. As the year goes on, technical evidence accumulates that this consolidation could be a protracted one, and there is, indeed, historical precedent for such a process continuing for as long a another couple of years. Such a period could well be accompanied by many of the characteristics we have seen recently---dullness, low volume, and a general lack of interest on part of market participants. If this proves to be the case, it will be necessary, as the malaise grows deeper, to remind oneself that the financial community has endured similar hardships in the past and has managed to survive them. Indeed, the aftermath of base-building is, by definition, a bull market. How long we may have to wait for such a market may be today's major unanswered stock-market question.

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Dow Jones Industrials (12:00)	2017.78
S & P 500 (12:00)	259.78
Cumulative Index (8/25/88)	3778.73