TABELL'S MARKET LETTER

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Random thoughts in a desultory market.

On Contrary Opinion: One of the more venerable Wall Street notions suggests that the proper mindset for the successful investor involves holding a contrary opinion. This admonition is based on the observed tendency of markets to carry current fads to extremes, thus producing booms followed by inevitable busts. Therefore the theory that one should attempt to cultivate an opinion opposite to that of the majority of market participants.

This hypothesis has often been oversimplified and transformed into the dictum that "the majority is always wrong". Indeed, precisely the opposite is true. The majority is right most of the time. Garfield Drew, who used odd-lot trading as a proxy for uninformed majority opinion, regularly protested the misinterpretation of his data which stated that the odd-lot trader was usually wrong. He was wrong, Drew wrote, only at turning points---such as when, having been a heavy seller in a falling market, he continued selling after the market turned up.

Market participants have changed roles since Drew's heyday, and the majority of investors are now professionals. Levels of professionally held cash are known to be high, and there are those who, in the name of contrary opinion, would derive encouragement from this fact. We are less optimistic. There will occur, at some stage, a major turning point, and it will be accompanied by maximum pessimism and consequent large holdings of cash. However, there is nothing to stop the current climate of skepticism from continuing for a protracted period. It is difficult to tell, therefore, when, and more importantly, where than turning point will be.

On the Mysterious East: An example of the difficulties in anticipating at just what point a trend has carried to extremes may be found in the Japanese stock market. It has been patently obvious for some years now that that market has been wildly overvalued in relation to the world in general and the United States in particular. Its response to this obvious fact has been to continue rising and becoming more overvalued, most recently by moving well above its August high early this year.

In the past couple of weeks, Tokyo has moved down fairly sharply, leading to speculation as to whether the long-heralded collapse may be underway. Oddly enough, there appears to be little agreement among U.S. observers as to what a Japanese bear market would mean to us. One theory holds that, since the Japanese market constitutes 40% of world market value, a Tokyo collapse would be exported to other markets as was the U.S. crash in 1929, and Japan's weakness was cited as one reason for Thursday's 29-point drop in the Dow. It has conversely been suggested that money leaving Japan might well gravitate to the U.S. market and that falling Japanese stock prices would, therefore, be bullish for Wall Street.

On Shelter: A market that has been rising even longer than Japan's, indeed for some 50 years now, is the U.S. real estate market. This fact is noted in an article in the August 22 issue of Barron's, entitled "The Coming Collapse of Home Prices". The article is a provocative attempt to employ contrary thinking, and we would place it in the category of recommended reading. We can hardly do otherwise since we made many of the same arguments in this space a few years ago. Following our comments at that time, housing prices promptly doubled, providing yet another object lesson on being too early in anticipating the end of a trend. It will be interesting to see whether the present article's timing is any better.

On Inflation: The anti-real-estate argument suggests that it should do less well in a period of relatively low inflation. However, the stock market's current worry seems to be renewed inflation. Another widely heard excuse for Thursday's decline was the somewhat pixilated reasoning that unemployment figures (not then released) would be down, leading the Federal Reserve to further credit tightening and, therefore, to higher interest rates. The same reasoning explained Friday's rally after unemployment actually rose, thus, presumably, eliminating the prospect of Greenspan's running amok.

Our own feeling is that the inflationary spectre, which seems to be terrorizing market participants at the moment, may be somewhat ephemeral. For example, anticipated inflation, one would think, would have produced some strength in gold, the classic inflation hedge. No such tendency has been evident. The apparent bottoming of the dollar in foreign-exchange markets is, likewise, something other than a harbinger of renewed inflation.

It is, indeed, arguable that the real underlying pressures on the U.S. economy may, in fact, be deflationary. This would help explain why everybody's favorite bugaboo of the past few years, the budget Government deficit, has been accompanied by relatively stable prices rather than the rising ones classical economics would tell us to expect. If one is looking for a really contrary opinion, the economic benefits of the deficit might be a good starting point.

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AWT:ebh

Dow Jones Industrials (12:00)	2032.00
S & P 500 (12:00)	261.65
Cumulative Index (9/1/88)	3782.75

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