TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

600 ALEXANDER ROAD, CN 5209, PRINCETON, NEW JERSEY 08543-5209

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

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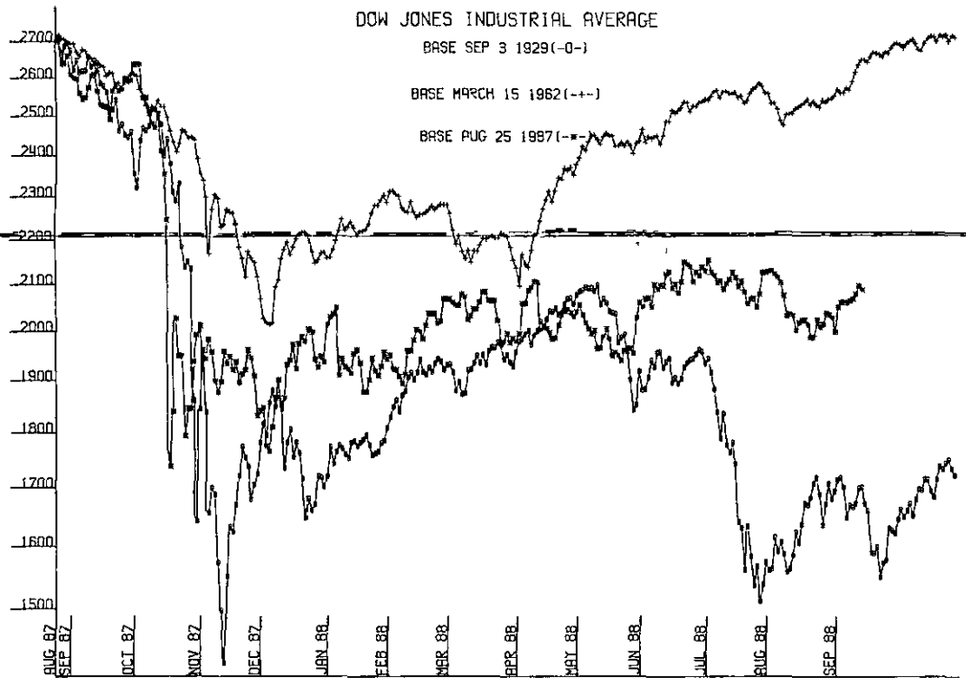
A summer rally has failed to materialize as the stock market seemed to have spent July and August waiting for a signal that the U.S. economy was slowing down so the Federal Reserve would not push interest rates higher. It appears that the slowdown may, in fact, have happened, and it will now be argued that the real problem ahead is recession.

It has been over a year since the anniversary of the stock market's all-time high on the Dow Jones Industrial Average at 2722.42 on August 25, 1987. The unprecedented 500-point decline on October 19 of last year is still remembered but, perhaps, in a more vague, less threatening way. The current climate, reflecting a certain dullness and lack of interest, does not appear to be hostile.

To help demonstrate this, it is useful to again re-examine the performance of the market since the October 19 collapse with two prior climax bear markets in the Fall of 1929 and the Spring of 1962.

The chart below compares the first 300 trading days of the 1929 and 1962 markets together with the performance from October, 1987 through yesterday. The two previous downswings are adjusted to a base of 2722.42, the August 25, 1987 high for the DJIA. The base dates used were the actual high date of the 1929 bull market and a secondary Dow high in March, 1962.



We have previously examined a number of similarities among the three examples. Each started with an initial decline, each market recovered somewhat and then embarked upon its final, selling-climax plunge, and each selling-climax was completed in a relatively short period of time. What is different is that the 1929 and 1962 declines subsequently penetrated their climax lows. As the chart above shows, this has not been the case of the 1987 decline.

Where are we now? The aftermath of all three declines has been different. The current market action places us right in the middle of the 1929 decline, the bearish case, and the 1962 decline, which reflected a bullish influence.

The stock market, after the 36.13% decline in August - October, 1987 recovered 24.15% to a high of 2158.61 in the Dow on July 5 of this year. Since the first of this year, the market has been contained in a 300-point trading range, between, roughly, 2150 and 1850.

As this letter has recently pointed out, this consolidation or rebasing period could continue for some time into the future. Not necessarily a hostile environment, but one to which the investment community, which is used to instant gratification, is unfamiliar.

ROBERT J. SIMPKINS, JR.
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials (12:00)	2093.71
S & P 500 (12:00)	268.38
Cumulative Index (9/15/88)	3879.72