TABELL'S MARKET LETTER

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As is customary at this time of the year, last week's letter contained a review of 1988 stock-market action. In summary, we pointed out that the aftermath of the October, 1987 collapse consisted of a rather lacklüster trading range with a moderate upward bias, but featuring substandard breadth and declining volume. We are required, this week, to assess the implications of this past history for future major behavior---in other words, to produce a forecast for 1989.

For the first part of last year, there was one plausible, and rather ominous, interpretation of the market action which was taking place. One could overlay a chart of the October, 1987 market crash on the one which had taken place 58 years before and discover that the fall and subsequent recovery in 1929-30 and in 1987-88 were almost exact duplicates. Widely heard at the time was one of this letter's most unfavorite terms, "bear-market rally". We have pointed out repeatedly, that the bear-market rally is, like the unicorn, essentially a mythical beast. Those who persist in believing in this particular mythology love to cite 1929-30 as an example, despite the fact that it is the only case of a bear-market rally of that sort of magnitude in all of stock-market history.

By mid-year, however, the 1929-30 analogy had fallen apart. That advance lasted six months, and the market then plunged to new lows. Today, fourteen months after the 1987 crash, we find ourselves, despite all that is wrong with current market action, within a few points of post-crash highs.

As we reached the second half of last year, and the 1929-30 similarity began to disappear, another historical comparison came to attain plausibility. After a sharp break in the fall of 1946, the market, as was the case last year, remained in a narrow trading range, this one with a lesser upward bias than the present case and with even worse market breadth. The 1946-49 analogy becomes even more apt when one considers investment psychology. There was, in those post-World War II days, an extant conventional wisdom which insisted on the absolute inevitability of a post-war depression. It is certainly arguable that a like conventional wisdom exists today, a universally-held pessimism which can be explained by the single word, "debt".

The belief that the budget deficit and the resultant buildup of government debt possesses the potential for unmitigated disaster, has attained the status of revealed truth, along with the belief that the trade deficit must be reduced in order to prevent national bankruptcy. Critics of the private debt structure fume over the proliferation of leveraged buy-outs and the utter asininity of some forms of financing for those buy-outs. And, as far as the quality of existing loans is concerned, we all know about third-world debt and the savings-and-loan industry.

There exist only a few voices crying in the wilderness with countervailing views. Milton Friedman produced a Wall Street Journal article a couple of weeks ago entitled "Why the Twin Deficits are a Blessing". Yes, "Blessing" is the word the man used. The appellation, it should be noted, was created, not by some sort of kook, but by a Nobel-Prize winner.

There have appeared, from time to time, like comments, pointing out such items as the fact that the U.S. Government debt is not historically excessive when looked at in terms of national income and that the deficit is not all that different from those shown in recent years in other countries. It has also been pointed out that, even with the recent growth in corporate leverage, the average U.S. corporation today displays a more conservative balance sheet than its counterpart in Japan or West Germany. Comments of this sort tend to be buried deep in the financial pages, while the headlines feature politicians assuring us of our imminent destruction by the deficit.

Now it is true, of course, that the conventional wisdom in this case could turn out to be right, and, if it is, the economy---and, presumably, the stock market---are in deep trouble. This remains a risk, and we are not willing at this point, to predict whether that risk will turn to reality. What we do think, however, is that the perception of that risk is so widely held that it is likely to color market action for most of 1989. This leads for a forecast for the upcoming year, which calls, unfortunately, for more of the same.

We expect, in other words, the 1988 trading range to continue, possibly with the same sort of upward bias it possessed over the past year, so that modest new highs above the 2183.50 close of last October will likely be attained, although we do not expect, at this stage, an approach to the August, 1987 high of 2722.42. On the low side, 1989 could see a test of the trading range's lows, but we doubt this would involve anything as low as the October-December, 1987 bottom in the 1700's. More likely would be a test of the January-May lows in the mid-1900's.

We are, in short, looking for a continued rebasing period, and we are willing to work on the assumption that it is likely to occupy all of the upcoming year. Should evidence to the contrary emerge during the year, we hope to be able to recognize it and suggest appropriate revisions in investment policy.

ANTHONY W. TABELL
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Dow Jones Industrials (12:00)	2169.46
S & P 500 (12:00)	277.77
Cumulative Index (12/22/88)	3860.75

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WE WISH YOU ALL A HAPPY AND PROSPEROUS NEW YEAR!