TABELL'S MARKET LETTER

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It cannot be denied that 1989, so far at least, has been a pleasant year for the equity market. In three weeks, the Dow had, at yesterday's close, moved up 3.25% from its December 30 level. This move represented the continuation of a year-end rally that can be dated all the way back to lows posted over two months ago. Since then, the average, from a level of 2038.58, has now advanced almost 10%. Before joy becomes totally unconfined at this happy sequence of events, it should be noted that we have here nothing particularly new. Three of 1988's four short-term rallies posted larger advances.

Recent action is, however, not without its impressive aspects. We are thinking here specifically of the fact that both currency and stock markets were able to shrug off disappointing trade-deficit figures and produce sharp rises in both stocks and the dollar. Now, if the market can ignore the next jump in short-term interest rates, we will really be impressed.

We have taken up a great deal of space of late talking about short-term market swings, and it is perhaps worthwhile to step back and try to place the current trading pattern within a major-cycle context. To begin with, it must first be recognized that we are in a bull market. This may seem, at first glance, to be a reversal of position for this letter which, our readers are well aware, has tended to wax less than ecstatic over recent market action. Such, however, is not the case.

The bull classification for the current market is, after all, the only logical one in terms of cycle theory. It seems to us absurdly obvious that October 19, 1987 (or its December, 1987 test), constituting the low point of what was arguably the second largest decline in stock market history, has to be identified as a major-cycle low. We have, moreover, documented the fact that the rally-in-a-bear-market thesis to explain trading since that time does not hold water historically. If October, 1987 was a major cycle low point, the ensuing period is clearly the upward phase of a new market cycle---in other words, a bull market. This thesis is confirmed by the traditional filter test for bull and bear markets, a 20% move. The Dow and the S & P 500 were both, this week, roughly 28% above their 1987 lows.

So, a bull market we have. What we do not have, and this is this letter's rationale for continuing skepticism, is a very good bull market. We will not bore our readers further by once more reciting the litany of deteriorating breadth, momentum, and volume statistics which have accompanied the last ten months of the current upswing.

In trying to cite an historical analogy to the present market, we have, in the past, referred to October, 1946 - June, 1949. We would not want to push this comparison too far, yet there are a number of points of similarity. It must be remembered that 1946 - 1949 was, indeed, a complete market cycle.

As in the current case, a new low was made on October 9, 1946, at 163.12 on the Dow and was tested again some six weeks later at 163.55. There followed, throughout all of 1947 and the first half of 1948, a series of choppy up and down swings, not at all unlike those of 1988. The bull-market phase of the cycle peaked on June 15, 1948, 20 months after the low, with the Dow at 193.16, 18% above its bottom. On the same date, the S & P 500 was 24% above its low figure. The advance displayed breadth and volume action even less impressive than that of today. The following year constituted a bear market which retraced the entire advance. The subsequent cycle, 1949 - 1953, then produced one of the strongest upswings on record.

That upswing was a product of the fact that 1946 - 1949, for most stocks, constituted a rebasing period. Like any cycle, it consisted of bull and bear phases, but both were relatively flat. It was also a period during which leadership rotated back and forth as various stocks and industry groups built up the patterns that led to the advance of the 1950's. When one looks at individual stock patterns today, there is a clear impression that potential base patterns, similar to those which must have been tracing themselves out in the late 1940's, may well now be forming.

The question currently posed for the technician must center on the timing of the breakouts from those patterns. It is, of course, conceivable that such breakouts could begin to take place en masse over the short-term. This seems to us rather unlikely. It is the normal characteristic of bull markets that they attain maximum upside momentum in their early stages and generally lose that momentum as they move ahead. A bull market developing an acceleration phase in its advanced stages is a phenomenon difficult to locate in the historical record. Expecting an advance now 14 months old, which has been deteriorating for 10 of those 14 months, suddenly to erupt on the upside requires an optimism which we do not possess.

None of this is to suggest that the present upswing is over. Twenty months after all, elapsed between October, 1946 and June, 1948, and the present rise is only 14 months old. Furthermore, the current trading range shows an upside bias that 1946 - 1949 did not. If the present pattern continues, individual stock bases will become more and more impressive, and we have no doubt that the eventual upside breakout from those bases will produce a market which will be exciting, indeed. However, the immediacy of that breakout remains, in our view, questionable.

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Dow Jones Industrials (12:00)	2241.07
S & P 500 (12:00)	286.76
Cumulative Index (01/19/89)	4094.61

AWT:ebh