TABELL'S MARKET LETTER

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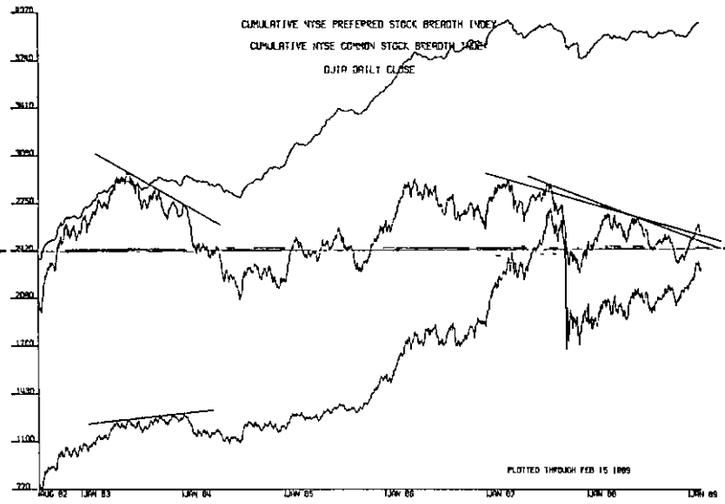
February 17, 1989

The appearance of the decennial pattern of years ending in eight and the "January effect", each historically confirming higher prices, have come and gone. The recent rally, which began last fall on November 16, carried into early February, closing at 2347.14 on the Dow Jones Industrial Average, a gain of 15.14% in the time span of 56 trading days. Since this recent post-crash high occurred last week, a 65-point correction has stalled the 300-point advance. During this period, the market has been trying to digest from a large menu the many uncertain cross-currents available---the President's Budget Message, prime rate increases, inflation fears, and trade figures, on the one hand, versus a healthy economy, improved 1988 earning reports, and dividend increases in major companies on the other.

As readers of this letter are aware, October, 1987 constituted a major cycle low, which by definition, classifies the current position of the market, advancing to date 35%, in a bull phase. What has continued to bother us, in the simplest terms, about the recent advance, however, has been the concentration in large-capitalization stocks coupled with poor overall breadth of the market.

Recently improved daily market breadth has broken a significant declining trendline albeit well below its March, 1987 high. This, together with rotational changes in group leadership, could signal a opportunity for broader participation. With this short-term pause in the advance of the market, we might find some answers by examining the chart below.



The NYSE, for some sixty years, has recorded the advances, declines, and unchanged of all issues traded. More recently, breadth figures have become available for common stocks only. This new series constructed as a breadth index (advances - declines divided by total issues traded) is shown in the middle third of the chart above. As expected, this common stock index behaves in a similar manner to that of the traditional total issues breadth index. By subtracting common stock issues from total issues traded, we are also able to develop a preferred stock breadth index, representing over one-quarter of the total issues traded. This interest-sensitive index is shown above in the upper third of the chart. Both of these breadth indexes are compared to the DJIA in the lower third of the chart from the August, 1982 low to date.

A classical breadth divergence can be pointed out on the chart above where the common stock breadth index spent most of the second half of 1983 declining, while the DJIA went on to new highs in October, 1983. This divergence was followed by a correction, 15.39%, in the DJIA, lasting until July, 1984. The preferred stock breadth index during this period, however, went to a new high, reflecting the ongoing strength in the interest-sensitive sector during the general market decline. By hindsight, we also know a breadth divergence occurred prior to the October, 1987 correction; i.e., breadth reached a high in March of 1987 while the DJIA went on to further highs which were not confirmed by breadth.

Currently, although breadth action is improving for the short term, the common stock breadth index is still well below its high achieved on March 17 of last year. On the hand, it is interesting to note that the preferred stock breadth index, the interest-sensitive sector, representing a major component of the stock market, has been relatively outperforming the market and is approaching new highs for the same time period.

If the market were to again break out of its narrow trading range on the upside, as it continued to do in 1988, improved market breadth would be needed to sustain the advance. However, to date, the leadership continues to be limited to high-capitalized stocks.

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Dow Jones Industrials (12:00)	2329.11
S & P 500 (12:00)	295.80
Cumulative Index (2/16/89)	4213.64