TABELL'S MARKET LETTER

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The subject of this letter will be the stock-market crash of 1987. We have no particular excuse for returning once again to this rather painful subject. Possibly our choice was stimulated by the fact that the central New Jersey spring has lately been interrupted by a series of cold, gray days. Perhaps it is because the market remains locked in a narrow 100-point trading range, which, as a subject for discussion, we have exhausted over the past two weeks. Or, conceivably, it is that a yet longer-term perspective on the events of a year and a half ago may provide some helpful insights into the current market environment. In any case, here goes.

On August 25, 1987, the Dow reached its all-time high at 2722.42. As late as early October, it was still within eighty points of that high. On Tuesday, October 13, four trading days prior to the crash, it was down less than 8% at 2508.16. Then, three successive days of decline erased 262 points by the end of the week, and, Monday, October 19 brought the crash itself, a 500-plus-point plunge on 600 million shares of volume. For the Dow, that day's close of 1738.74 remains the low, although it was tested six weeks later in December.

The obvious comparison, indeed the only comparison, is with 1929, and we, along with many others, duly noted the fact at the time. The October 19 fall, 22% in a single day, was almost twice as great as that for the worst day of 1929, and the two-day (Friday-Monday) drop also set a record. After the initial fall, the 1929 break was extended with a further leg down, so that the total 1989 drop of 36% did fall short of the earlier 48% plunge. It was scant comfort at the time.

The writer's late father, whose career included the 1920's and 1930's, once became exasperated with gloomy predictions which recalled that era and used the phrase, "Relax, Buster. You'll never see 1929 again". In one sense, this assertion turned out, years later, to be incorrect, and yet, in another sense, it was still prophetic. To the extent that he was using 1929 as shorthand for 1929-1932 the assertion remains correct. For the salient difference between 1929 and 1987 is that 1988-1989, so far at least, remains the polar opposite of 1930-1931. We find ourselves today, 19 months following the August, 1987 market high, having recovered almost two-thirds of the ground lost. Within a comparable timeframe 60 years ago, the Dow had moved 20% below its November, 1929 low. It would later be cut to a quarter of that value.

By the time 1931 rolled around, moreover, the stock market was the least of the nation's worries. The year's Gross National Product would be down 25% from its 1929 level on its way to even lower figures in 1932 and 1933.

The two paths having diverged so dramatically, we should be compelled to keep asking ourselves why. One explanation, which is rapidly attaining the status of conventional wisdom, (and will probably continue to do so as 1987 recedes further into the past) may be called the "It-Was-All-A-Bad-Dream" theory. Protagonists of this hypothesis are fond of pointing out that the market was at basically the same level (in the 1900's) at both its 1986 and 1987 close. Eliminating 1987 from a chart produces a lovely ongoing---if slowing---bull market. This thinking is buttressed by the fact that the break can be, at least partially, explained by recent structural anomalies in the market, i.e. the emergence of derivative products and such esoteric illusions as portfolio insurance. The more optimistic proponents of this theory would hold that we have now recognized the problems, put them behind us, and can get on with our business.

There is much to be said for this argument. We have deplored for many years the tendency to link 1929 and 1930-32 as inseparable phenomena. The former, we have always contended, was market related. The causes of the latter, where the real damage was done, were far more fundamental. The late 1980's and 1990's may turn out to confirm this thesis. The 1929 crash will have recurred without the consequences of the 1930's depression.

Yet, as market technicians, we cannot help but feel that 1987 will leave a number of footprints. Our own impression is that we are seeing some of these footprints at the moment. Our evidence for this remains largely anecdotal, although we are working on quantifying it. However, we find ourselves amazed at the number of stocks which, at this moment, are hesitating as they reach the overhead supply, which stems, for the most part, from the lower limits of 1987 trading ranges.

Another question which 1987 raises in our own mind centers around the speed with which it developed. A 36% bear-market fall is not without precedent. Having it compressed into two months (the bulk of it into four days) is something else again. Not only was the break frighteningly precipitous, but the formation of the tops leading to that break took place with equally unusual rapidity. It is of course possible that this was simply an aberration, but we are, honestly, not so sure. We would be failing in our responsibility were we not to be vigilant in watching for the same speedy formation of distributional patterns which occurred two years ago.

ANTHONY W. TABELL
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Dow Jones Industrials (12:00)	2298.39
S & P 500 (12:00)	295.91
Cumulative Index (4/6/89)	4272.48

AWT:ebh