

TABELL'S MARKET LETTER

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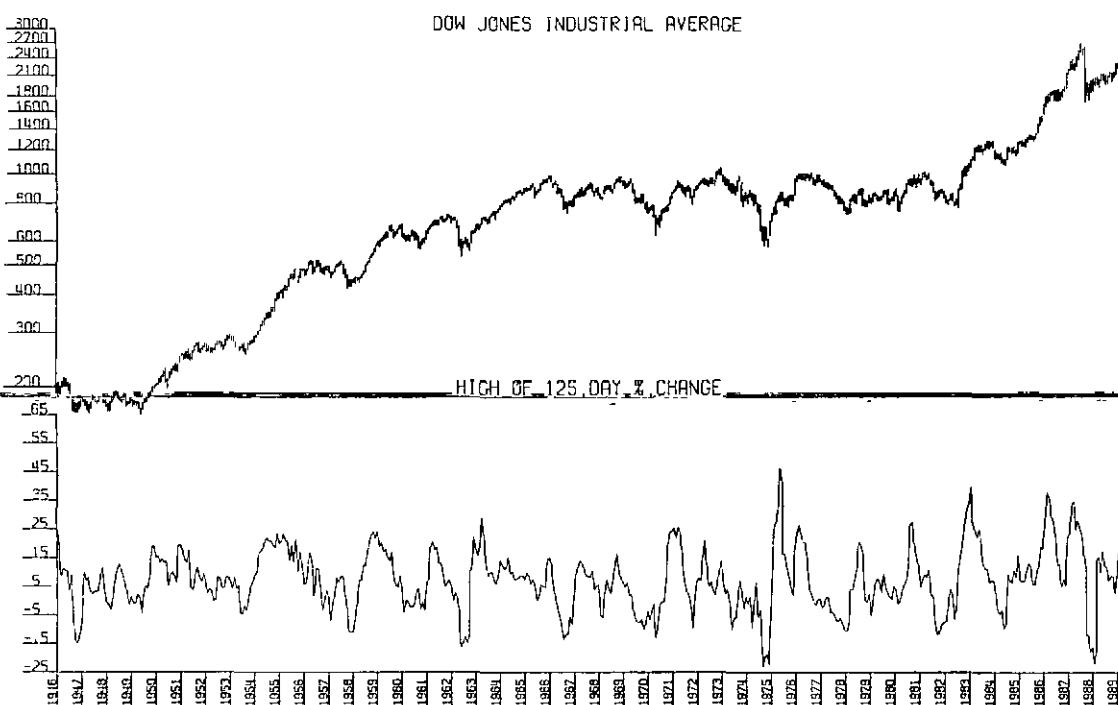
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May 19, 1989

The stock market staged a satisfactory follow-up to last week's rally, as it posted further new bull-market highs in this week's trading. In the process, it shrugged off news of a CPI increase, which would, in all probability, have sent it reeling a few months ago. Certainly, current behavior seems to indicate that the course of least resistance is upward.

If all this seems a bit strange to many investors, there exists some justification. Yesterday was the 400th trading day since October 19, 1987. The spectacle of a market developing new peaks in upside momentum---and that is what this market seems to be doing---at this late a date is, if not unprecedented, at least historically unusual.

Simple measures are often the best, and a measure of market momentum which suffices for many purposes is a simple 125-day (six month) rate of change. That measure (the monthly high is plotted) is shown as the lower line on the chart below, which covers a 43-year history for the Dow Jones Industrial Average.



As the chart quite clearly shows, most major upswings in the past have been accompanied by well defined momentum peaks. For the most part, these peaks have tended to occur very early in the upside move. In all but two cases during the period shown, the momentum peak for major bull markets occurred in the first half of the move's timespan, and, in the majority of cases, momentum topped out in the first third of the bull market's duration. In the 21-month upswing lasting from December, 1974 to September, 1976, for example, the momentum peak was attained after six months, in June, 1975.

Prior to the 1960's, the peaks also tended to occur when upside moves still had a long way to go. In the bull markets from 1949 to 1962, momentum peaks occurred before half the total move had been completed. The 1957 bull market began at 420 on the Dow. Momentum topped with the DJIA at 565. It ultimately reached 735.

However this pattern subsequently changed. After 1966, well over two-thirds of the bull market's percentage advance tended to be over by the time momentum topped out. Following May, 1970, momentum hit its high after the Dow had moved from 631 to 948. The final peak was 1052.

The question at the moment, of course, is whether the new high in momentum indicates a further protracted market rise. On the face of it, this could be the case. But, as noted above, a momentum peak this late is unusual. A high in momentum has occurred later than 400 days into a bull market only three times in the past, in 1966-68, 1978-80, and 1984-87. In the latter case, the move was barely half over when momentum topped, but in the other two cases, more than 80% of the move, both in time and amplitude, had taken place. Thus, the message being sent by increasing upside momentum at the moment remains somewhat ambiguous.

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Dow Jones Industrials (12:00) 2493.95
S & P 500 (12:00) 321.26
Cumulative Index (5/18/89) 4497.08

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