TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

600 ALEXANDER ROAD, CN 5209, PRINCETON, NEW JERSEY 08543-5209

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

July 14, 1989

The last two issues of this letter shared a common theme, and we beg our readers' indulgence in allowing us to enlarge upon that theme in one more issue. The theme is the relevance of the 1987 market crash to the current market outlook. We do not think it quixotic to say that the market analyst's attitude toward the 1987 break should probably constitute the most important factor in determining how he views the stock market at this juncture.

The point is---if only we can safely ignore the experience of two years ago---that there exists at the moment only one logical market posture, and that is an unreservedly bullish one. We noted two weeks ago the fact that we are, in mid-July, 1989, lucky enough to know precisely where we stand in market-cycle terms. On October 19, 1987, the Dow bottomed at 1738.74. Yesterday, it closed at 2538.31 without having seen any appreciable sort of correction in between. That, children, is called a bull market. We were in it at last night's close, and there is absolutely nothing that the market can do from here on out to change that fact.

The bull market in question has, moreover, advanced precisely 45.99% over 21 months---438 trading days to be exact. Now, since bull markets, happily, are not a new phenomenon, having occurred regularly in the past, we are entitled to ask whether either of these figures is, in historical terms, excessive.

There have been cycle upswings in the past which have topped out before they had risen as much as 46%---a couple in recent history. The 1966-1968 advance was only 32% and that of 1978-1981, 38%. The vast majority of earlier bull markets, however, has exhibited rises far greater than the present one to date. Advances greater than 100% have not been uncommon, and increases in the 60-80% range have tended to be more or less the norm. The most elementary sort of historical analysis would suggest that the expectation that the market will equal or exceed the 1987 high on the current upswing is not any sort of off-the-wall opinion. It is simply the normal expectation.

Nor should there, based on this kind of analysis, be any great worry about the market's topping out any time soon. There have been only two bull markets since the 1930's which lasted less than 438 trading days. One was the "baby bull market" of 1938, whose very name implies its uniqueness. The other is 1982-1983, and this one is the subject of technical hairsplitting concerning it was, in fact, a single bull cycle or part of a larger one. There have, it must be admitted, been major-cycle rises which peaked after not a great deal more than 438 trading days. 1974-1976 was 452 days long and 1966-1968, 518. On the other hand, the advance of 1957-1961 lasted over 1,000 trading days and that of 1942-1946, 1211. By these standards, we could still be sailing along into new high territory in 1991.

The final point that we made two weeks ago was that, even if one chooses to take the view that we are at or close to a major peak, there should be no immediate cause for concern. Market tops, we tried to point out with historical statistics, generally are relatively slow to form and provide the assiduous analyst with some advance warning of an impending break. The market, we pointed out, once having made a high, generally tends to remain close to that high for what is often a fairly lengthy period of time. All the lessons of history, then, argue in favor of an aggressive attitude toward common stocks.

All of the above would be true where it not for the experience of two years ago, which we tried to summarize last week by tracing the action of a single stock over a three-month period. We were, in August, 1987, in the throes of a bull market, superficially not unlike the present one. Only minor top formations were present. Within a few weeks, those tops had assumed major proportions, and, less than three months later, well over one-third of the total market value of U.S. equities had gone down the drain.

Thus, the question of the relevance of 1987 for today. Could important tops be formed with such speed again? There had, of course, been nothing precisely like August-October, 1987 for 58 years and, if such occurrences are that rare, we can undoubtedly forget about them and focus on the sort of market statistics cited above. If, on the other hand, the crash means that a fundamental change in market structure has taken place, our attitude at the present time should be a great deal more cautious.

We once likened investment policy in a bull market to driving a car at night. It is necessary to be vigilant in observing what may occur within range of the headlights and fruitless to fret over what lies beyond their range. Such is probably the proper attitude at the moment---possibly with a bit of extra vigilance inspired by the events of 21 months ago.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials (12:00)	2521.05
S & P 500 (12:00)	330.01
Cumulative Index (7/13/89)	4710.57

AWT:ebh