TABELL'S MARKET LETTER

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The Dow, finally, joined the other averages in new all-time high territory, and the obvious question at the moment is how far the bull market may carry. In this connection, we were intrigued by the sub-headline of an article on the front page of the Sunday New York Times business section. It read, "Will the Dow hit 5000 by 1993?". Investigation revealed, however, that the article did not get to interesting topics like the future of the Dow until near the end. Instead, it consisted of an interview with three eminent economists, discussing---pardonably---economics. These three gentlemen, A. Gary Shilling, Albert M. Wojnilower, and Edward E. Yardeni, interestingly enough, held widely differing views. Mr. Shilling is forecasting a recession, ultimately producing long-term Treasury-Bond yields of 4% to 5%. Mr. Wojnilower says, "There is not going to be a recession." and "My forecast is that long-term interest rates will go up again". Mr. Yardeni forecasts the best of all possible worlds, no recession and slightly lower bond yields.

Long-term readers of this letter will be aware that we have some skepticism about the relevance of all of this, having the usual technician's bias in the belief that the market tends to forecast the economy rather than the other way around. There is even some agreement from the economics profession itself on this subject, since the National Bureau of Economic Research includes the S & P 500 in its series of leading economic indicators. The gentlemen in the Times interview, however, disagree. Mr. Wojnilower contends, "Very rarely do the securities markets tell you anything useful about the economic outlook.", and Mr. Shilling noted that "The market didn't predict 1929, or the 1980 recession."

We hope we will be forgiven for remaining unconvinced. Although the message was certainly not clear, the market remained in a trading range---with nasty shakeouts in fall, 1978 and fall, 1979---for two years prior to the 1980 recession. Furthermore, correctly forecasting that recession would have been of limited usefulness since, starting from the recession's mid-point, the Dow posted a healthy 35%, year-long gain. The stock market admittedly, did not lead the economy in 1929, although the severity of that break has long been associated with the eventual depth of the 1929-1932 depression. This, of course, is what made similar market action in 1987 so scary.

As the most bullish of the three interviewees, it was, unsurprisingly, Mr. Yardeni who looked for the Dow to be at 3000 by year-end and suggested, "We are on our way to a 5000 Dow by 1993". We are not ready, at this stage, to disagree with this forecast, but it is interesting to note, in our capacity as market technicians, that such a forecast could have been arrived at via a naive approach, having nothing to do with economics.

Readers are familiar with our compilation of the 24 major stock-market cycles which have taken place since the Dow was first computed in 1896. Measured using monthly average prices, these cycles have a mean length of 46 months, measured from low to low (thus the term "four-year cycle"), with the advancing phase averaging 30 months. The average percentage advance for the 24 cycles has been 81% and the mean subsequent decline, 28%. Overall, the low for each cycle has tended to be 26% above the previous low, and the highs have averaged out to 31% higher than the prior high. Given these figures, all we need to know is that the average price for December, 1987 was 1910.07, and we can arrive at the following scenario.

Thirty months from December, 1987 takes us to June, 1990, by which time the Dow, if it advances 81%, would be at 3457. A subsequent 28% decline would bring it to 2489, which figure, were it reached 46 months after December, 1987, would be attained in October, 1991. Why not go on? Given the projected benchmark low of 2489 in October, 1991, we can then extrapolate a top at 4505 to occur in April, 1994.

Now we are certainly not naive enough to offer the above as a forecast, and we have regularly noted the extreme variability of market patterns. Nonetheless, we do not think a composite of the market's behavior over nearly 100 years constitutes nonuseful information. What is interesting is the plausibility of Mr. Yardeni's forecast in the light of the historical record.

What could go wrong? We are, of course, not total disbelievers in the usefulness of economics, and what bothers us is Mr. Shilling's projected recession or, more properly, the possibility that it might turn into something even more serious than he projects. Were such to be the case, it is, of course, our faith that the market would provide us with some prior warning in the form of deteriorating technical action. It is obvious, though, that such deterioration has not manifested itself to date.

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Dow Jones Industrials (12:00)	2740.13
S & P 500 (12:00)	351.73
Cumulative Index (8/24/89)	4901.15

AWT:ebh