TABELL'S MARKET LETTER

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We have regularly remarked, in this space, that one of the functions of the technician is to serve as market historian. In this capacity, his task is to seek out prior periods of market history which bear some resemblance to the current one and to adduce from subsequent results the elements of a forecast.

We have found ourselves discussing history a good deal of late. This is appropriate since it is fairly easy to fit the stock-market scene, as it exists in September, 1989, into an historical context. There can be little doubt that October 19, 1987 (or its December, 1987 test) constituted a major bear-market low. We are now approaching the second anniversary of that low. This puts us in an almost two-year-old bull market which has, to date, scored an advance of some 58.2%.

Now bull markets---and the inevitable bear markets which follow---are not new phenomena. They can be traced back as far as the Holland tulip market in the 1600's, and we have noted, most recently just three months ago, that there have been 24 measurable bull markets over the past century. Certainly, a study of those 24 previous markets should tell us something about the present case.

It does, indeed, do so, but it also suggests some of the limitations of historical analysis. It is quite true that the average length of the bull phase of a major cycle is 30 months and that many bull markets have had lives approaching four years or even longer. Nonetheless, there exists a fair number of recorded cases in which a bull market has topped out in 24 months or less. There are, to be exact, ten such instances, although most of them occurred early in the century.

We tried to carry historical analysis a bit further last week, when we noted that, since last November, the Dow had advanced for 200 trading days, to September 1, without a 5% correction. The major point we wanted to make was that, following past similar rallies, the first 5% correction had never constituted the end of the bull market.

The above, it seems to us, affords an historical framework. We find ourselves in a major-cycle upswing which probably has more room---possibly a good deal more room---on the upside, but one where the inevitable topping process could begin at any time. To determine whether or not that process has begun, it is necessary to focus more closely on short-term market action.

In terms of the Dow, a potential top does exist, with a downside objective of 2560. This top, however, would not be confirmed unless the Dow were to break below the 2630 level. If the downside objective is reached, it would constitute the first 5%+ correction since last November, an event which should have considerable lead time on a market top.

In terms of individual-stock action, which for ten months has been confined almost exclusively to the upside, the market has turned mixed. We track each day using a computer scan, all upside and downside breakouts and reached price objectives for some 5,000 individual stocks. This Wednesday was typical. While the Dow ended that day sharply lower, there were a total of five upside breakouts and two downside objectives attained, or seven bullish events. On the same day, seven stocks broke out on the downside and four reached upside objectives, for a total of eleven bearish occurrences. This sort of thing has been continuing for a couple of weeks.

For the time being, at least, most deterioration has been confined to the formation of short-term tops in the defensive industry groups that have, by and large, been market leaders over the past year, food stocks being notable examples. At the same time, upside breakouts and ongoing uptrends continue to manifest themselves in cyclical, heavy-industry issues and in energy stocks.

This action, interestingly enough, suggests that the market is forecasting a different economic scenario than the one generally pictured in the financial press. That particular world-view is greatly concerned with making distinctions about hard and soft landings and seems confident that the authorities have inflation well under control. In the meantime, the market's shift in leadership suggests that the economy has no intention of landing at all, but intends to fly for a while longer. It also suggests that the expanding inflation figures for the first five months of this year are more indicative of the outlook for the price level than the smaller increases shown for June and July.

In summary, the first significant correction in over ten months appears to be, at least, a possibility. Such such a correction would be unlikely to signify the end of the bull market and should be followed, if it occurs, by a move to new highs. Concomitant with this action, upside activity should become less broad as market leadership shifts into new areas.

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Dow Jones Industrials (12:00)	2666.60
S & P 500 (12:00)	342.52
Cumulative Index (9/14/89)	4884.65

AWT:ebh