TABELL'S MARKET LETTER

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The Dow Jones Industrials, staging a sharp, mid-week rally, continued to hold above the 2640 level, which represents the low reached in August and which would constitute a downside breakout from what now must be considered a fairly important potential top. Continued ability to hold in this range without breaking 2640 (or 342 for the S & P 500) could only be construed as bullish and would indicate that the present interruption in the advance which began last November would be completed with only a consolidation rather than a correction. Unimpressive breadth and volume, however, continue to suggest the likelihood of a downside breakout eventually taking place.

The downside targets for such a decline, were it to occur, are not, at the moment, all that serious---centering around the low 2500's. The problem would be to fit it into a longer-range scenario.

As technicians, we are, of course, committed to the belief that market patterns repeat themselves and that bull and bear markets tend to follow similar rules of behavior from cycle to cycle. There are, of course, just enough exceptions to this rule to make life interesting, but until evidence to the contrary accumulates, it is wisest to treat the exceptions as being just that.

Up until a few years ago, at least, there existed a reliable rule of thumb concerning major tops and major bottoms. The former generally built up over a protracted period of time as a given advance slowly ran out of steam, accompanied by deteriorating measures of market momentum. The latter, by contrast, could be identified by obvious selling climaxes, sharp declines and recoveries on increased volume compressed into a short time frame. Past major lows---June 1949, September 1953, October 1957, May - June 1962, October 1966, May 1970, and October - December 1974---all were identifiable by such climaxes.

In the past 15 years, bottoms have emerged in a quite different form. February 1978 and August 1982 (also July 1984, if one chooses to treat it as a major cycle bottom) displayed a new set of characteristics. They began with a slow drift to lower levels on decreasing volume and then, out of the blue, put on an upside explosion. The older pattern of a selling climax was conspicuous by its absence.

The climactic bottom returned with a vengeance on October 19 - 20, 1987, but, following the test of the climactic lows in December, 1987, the market displayed behavior quite different than that shown following earlier climaxes.

Between 1949 and 1974, after the low (and its test if there was one) had occurred, there ensued a long rally, generally the strongest one of the bull market. This, as we all recall, was not the case with the current upswing. It spent most of the year 1988 swinging back and forth in a trading range with a moderate upward bias, and not until last November did we witness the characteristic bull market extended leg, a phase which which may or may not have ended on September 1. Interestingly, another recent market cycle, 1978 - 1981, behaved in more or less the same fashion with a protracted trading range running from February 1978 through "Silver Thursday" in April 1980, at which late date a long upside leg developed. Thus 1987-89, in this respect at least, behaved in the "modern" fashion.

What about the characteristics of market tops, which are now what we should be concerned about following a two-year advance. As we noted above, we had learned, over the years, to expect tops to form over a lengthy period of time and, during that time, to provide the analyst with a battery of evidence for detecting them. Then, of course, there occurred August - September, 1987, whose salient characteristic, as we have noted many times, was the amazing speed with which tops built up. The only historical parallel for this, was the summer of 1929, and, as far as the break was concerned, we did indeed have a replay of 1929. The aftermath, of course, was quite different---for which blessing we may all be truly thankful.

The interesting question, of course, is whether 1987 was an exception to the rule or constituted the first exemplar of a change in the pattern for market tops, much as 1978 seems to have initiated a change in the typical bottom formation pattern. For the time being, at least, we remain inclined to treat it as an exception, and it is our current view that any short-term correction which might occur over the near term would be nothing more than a correction. As we indicated last week, we do not think that the ghost of 1987 has been laid to rest in the minds of investors, and we think that any noticeable decline at this stage, which, as noted above, we consider probable, would bring recollections of 1987 to the surface. For the time being, at least, we remain convinced by the historical evidence which suggests the current bull market still has further to go, and, unless the current top broadens, it remains our view that a short-term downswing represents the worst-case scenario at this time.

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Dow Jones Industrials (12:00)	2704.21
S & P 500 (12:00)	349.56
Cumulative Index (9/28/89)	4901.15

AWT:ebh