TABELL'S MARKET LETTER

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For some years now, we have studied the familiar seasonal tendency of the stock market to stage a year-end rally, and it has been the custom of this letter to point out some of the conclusions that can be derived from a study of this phenomenon. Since 1897, when the Dow Jones Industrial Average was first computed, a rally, however small, has begun in December and continued into the new year in 90 of 92 cases, the two exceptions occurring in the mid 1970's. The following facts about the year-end rally may be noted.

1. The year-end rally often has been of great magnitude, occasionally continuing through the entire subsequent year without a 5% correction being recorded. It has frequently continued, with *only minor interruptions, for as long as six months into the new year. Indeed, this year's rally* continued until October. In many cases, the rally continued into February, March or beyond. However, on other occasions, it has been of only a few day's duration, reaching a top extremely early. This was the case in 1988, when an extremely dynamic year-end rally peaked on January 7, the fourth trading day of the year, and an 8 1/2% correction followed. In the bear-market years of 1960, 1970, 1973, 1974, 1981, and 1982, the rally reached a peak by the first week in January, and, as noted above, the 1976 and 1977 year-end rallies did not carry into January at all, the only two in market history so to fail.

2. There has been a persistent tendency for the rally to begin early in years when the market has been up, and late in years when the market has been down. In recent upward years, 1967, 1975, 1979, 1980, and 1985 are examples, the rally commenced from early December. In recent downward years, 1962, 1966, 1969, 1977, and 1981, the rally began late in the year. 1986 was an exception, an upward year where the year-end rally started on December 31. The 1987-88 year-end rally started on December 4, (1987 was an up year), and the 1988-89 rally saw its December low on the second day of the month. This year's rally began on December 20 at 2687.93, unusual in that 1989 was an extremely strong year.

3. The important thing to watch in connection with the market action in the early months of the new year is that December low. This low has been broken in 52 years out of the past 89. However, in 30 of these 52 cases, it was broken in January and February. For example, in 1970, 1973, 1977, 1978, 1981, and 1982, the December low was broken in early January. Since 1937, it has never been broken later than mid-March with four exceptions: 1965, 1974, 1981, and, of course, 1987. Thus, if *the market is able to hold above its December low for the first 2 1/2 months of the year, chances* become good that this low will not be penetrated.

4. In years when the December low has been broken, the subsequent trend has been downward two-thirds of the time. 1962, 1966, 1969, 1973, 1974, 1977, and to some degree, 1984, are typical cases. 1965, 1978, 1980, and, most recently, 1982 are exceptions.

5. The magnitude of the rally is an important clue as to the year's market trend. For example, an advance of 10% or more from the December low has been followed by an upward or neutral market in 41 of the 47 years that such an advance has occurred. An advance of less than 10% from the December low before an identifiable correction takes place has been followed by a downward market in 30 of the 42 years. In each year from 1985 to date, the year-end rally has been well in excess of 10%. In 1962, 1970, 1973, and 1977, as examples, it was less than this figure.

6. The length of time for which the rally continues into the new year is important. For example, in 28 years, the rally continued into March or later. In 24 of these 28 years, the eventual trend was upward. In 1964, 1972, 1975, 1976, 1985, 1986, and 1989, the year-end rally continued into March and in 1961, 1967, 1971, and 1980, into February.

This year so far, the advance from the December low has been small, under 2%. If the rally extends itself to 10% (approximately 2950) in the early new year, it would be a bullish sign. Likewise, continuation of the advance into February-March would be a positive indication.

ANTHONY W. TABELL
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| Dow Jones Industrials (12:00) | 2742.96 |
| S & P 500 (12:00) | 352.14 |
| Cumulative Index (12/28/89) | 4808.70 |

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