TABELL'S MARKET LETTER

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Finally, what must be conceded to have been, on the whole, a rather dismal January, managed, on Wednesday, to produce a moderately vigorous recovery. The Dow rallied some 47 points and, for the first time since January 2, the number of advancing stocks managed to attain four figures. After a mixed Thursday, strength continued Friday morning.

For those who insist on grasping at straws, we herewith offer one by pointing out that the rally managed to occur without the Dow, in the strictest sense, posting a new low. Tuesday's close of 2543.24 was, indeed, below the October 13 close of 2569.26. However, the intra-day bottom of 2513.06 held, by the skin of its teeth, above the October 16 intra-day low of 2496.93. More importantly, perhaps, our point-and-figure charts, which are posted on half-hour figures, did not show a new DJIA bottom.

All this might be encouraging had not the major S & P Averages moved decisively to levels below those of October. It seems, indeed, that the broader the average one looks at, the worse its short-term relative performance. This phenomenon---good relative strength by the Dow---is not, historically, encouraging.

As might be expected, the word "oversold" surfaced repeatedly in last week's market comment. This, in our view, is one of the most abused words in the technical lexicon, in that, about 99% of the time it appears, it is accompanied by no quantitative definition of just exactly what it means. There are, indeed, many indicators designed to register oversold (or overbought) market conditions, but let us, for the purposes of this exercise, focus on one of the most widely used of such indicators, the 10-day advance-decline oscillator.

The wide usage of this particular indicator may well be attributed to its simplicity of construction. It consists of nothing more than the total of advancing stocks for the prior 10 days less the corresponding total of declines. We have tracked this figure for some time and its popularity, we think, does not affect its usefulness. A fairly good market trivia question concerns the date of the all-time low for this particular oscillator. That date was not October 19, 1987, but October 27, 1978, when the advance-decline difference reached an astonishing -9382, almost 50% of all issues traded. This compares with the 1987 low of -9141, or 45.5% of stocks changing hands. This further adjustment---the conversion of the oscillator to a percentage of issues traded---is obviously necessary if one wishes to track it over long periods of time. All of what follows will refer to the indicator in those percentage terms.

The recent low for this particular indicator occurred three days before the January 30 market low at -23.88%. It had not been below this level since the current bull market's onset two years ago October. We will attempt here to put this number into perspective.

A useful way of looking at market history for analytical purposes is by the application of a filter rule, taking each move of a given percentage or greater. Applying a 10% filter, there have been 28 identifiable market lows since June 1949. (We ourselves recognize only ten of these as having been major market bottoms, but our definition is, admittedly, subjective, while the filter rule produces a more disciplined structure.) All 28 low points have, unsurprisingly, produced an identifiable low on the 10-day oscillator frequently occurring (in 12 of 28 instances) on the actual day the market makes its low. In 15 of the 16 other cases, the oscillator low led the low on the Dow by amounts ranging from 1 to 18 trading days. Our first task is to relate these prior instances to the current one. When we do so, we find that 19 of 28 instances wound up producing a lower figure than the present -23.88%. The 1978 record is noted above, and most major bear-market bottoms seem to have produced a low somewhere in the -30's. There are, of course, exceptions. Prior to August 12, 1982, for example, the oscillator never got below -19.72%.

We said above that a negative figure for the oscillator had appeared in the vicinity of all 28 market lows under study. Unfortunately, low numbers tend to appear at points other than major bottoms, thus producing "false" signals. If one envisions -24%, the recent figure, as a threshold level, in how many of the 28 declines under study has a group of such figures appeared prior to the market's actual bottom?

In the 1950's and 1960's, there were relatively few such false signals and again relatively few in the 1980's. In the 1970's, however, many declines took place in which repeated oversold conditions occurred on the way down. A good example is 1968-70, when the Dow dropped some 36% from a high of 985.21. The 10-day oscillator reached below -24% in February 1969 (Dow, 908), June 1969 (Dow, 912), July 1969 (Dow, 834), November-December 1969 (Dow, 823), January 1970 (Dow, 744), and April 1970 (Dow, 775), for a total of six false signals before the Average finally bottomed out on May 26, at 631.16.

We are, therefore, unwilling to attach a great deal of significance to the 10-day oscillator's having reached a relatively low level last week. Its tendency to lead market bottoms suggests that further lows over the next two to three weeks might be seen, and the existence of past similar conditions within the framework of major bear markets is not encouraging. We intend, therefore, to await further evidence before assessing the finality of the January 30 market low.

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Dow Jones Industrials (12:00)	2613.29
S & P 500 (12:00)	330.91
Cumulative Index (2/1/90)	4712.72