TABELL'S MARKET LETTER

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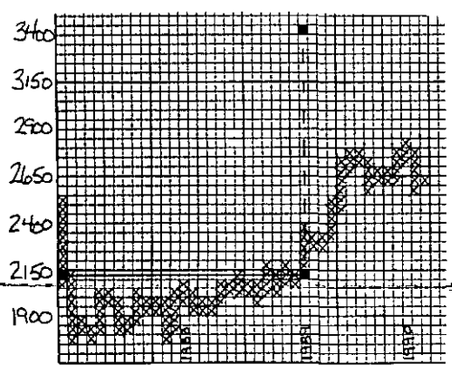
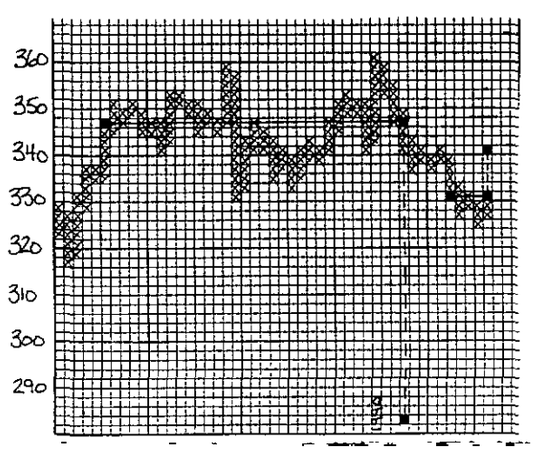
It occurs to us that, based on our comment over recent months, we are especially vulnerable to the charge of hedging---an art which, we must admit, over 35 years of penning market letters, we have learned something about. One of the oldest hedging rules is, "If you give 'em a number, don't give 'em a time, and if you give 'em a time, don't give 'em a number". It is, in other words, permissible to forecast the Dow's reaching, say, 5,000, if you do not specify precisely when this happy event is going to occur. Likewise, one can opine that the market will be higher at year-end, but saying just how much higher constitutes sticking one's neck out.

We have, in this space, been bandying about two numbers (without giving a time) for the Dow. These numbers are, first, an upside objective of 3400 and, secondly, a downside target of 2200. It may well occur to our readers that this spread is a contender for the all-time, world-class, championship hedge. We had, therefore, better explain ourselves a little further.



The first figure is derived, quite simply, from the 50-point-unit chart on the Dow shown at left. A simple measurement of the 1987-1989 accumulation area across the 2100 line, standard practice with P & F charts, yields, as we have shown, a 3400 target. However, when we referred to this objective most recently, in our year-end forecast, we noted that, "it is quite possible that the market might top out before this objective is attained and, following a bear market, reach it on the next cycle". This brings us to the rather nasty-looking little formation on the right side of the chart and the question of whether it is or is not a distributional top.

For a closer analysis, let us shift both the scale and subject matter, looking at the two-point unit chart of the S & P 500 below. It, unfortunately, more so than the Dow, appears to be a completed top, with a downside breakout having duly taken place late last month. The downside objective is 282, some 15% below current prices, as the Dow's comparable 2200 objective is about the same percentage below its present level. The Dow, however, as we noted last week, has not yet posted a downside breakout. For the short term, both averages have small bases, with upside targets of 340 for the S & P and 2700 for the Dow, at which levels they would both run into fairly massive overhead supply. Their behavior, as those figures are attained should afford some indication as to whether the market can rebase and attempt new highs, or whether the distributional-top theory is the correct one. A decline to 2200, it must be noted, although a drop of cycle-bear-market scale, would simply constitute a return to support and not invalidate the longer-term upside objectives.



While the spread between 3400 and 2200 is huge, it remains necessary, in an imperfect world, to keep both numbers in mind when trying to formulate a market scenario.

ANTHONY W. TABELL
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Dow Jones Industrials (12:00)	2643.69
S & P 500 (12:00)	332.58
Cumulative Index (02/08/90)	4794.66

AWT:ebh