TABELL'S MARKET LETTER

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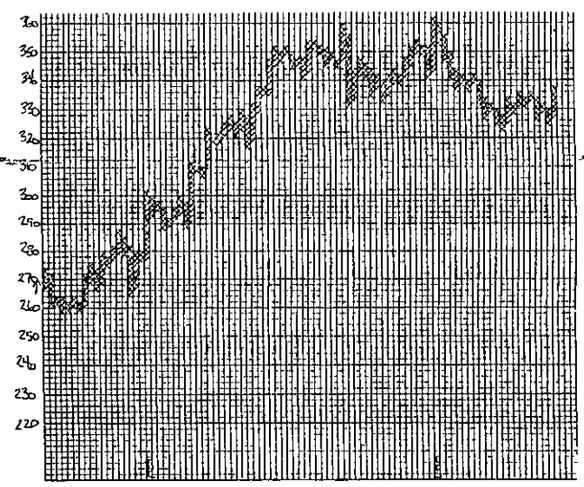
We presented last week an elaborate statistical display in an attempt to suggest that a breakout by the major averages above their February highs would, from a technical point of view, have some significance, suggesting a possible test of early-January highs. Before the ink was dry on the page, that breakout had indeed taken place. Our letter goes to press at noon on Friday, and the Dow closed the week above 2660, which was, on a point-and-figure basis, an upside breakout.

The immediate follow-through, however, was hardly impressive. Monday saw a ten-point pullback on reduced volume. The breakout was confirmed on Tuesday with a post-January high for the Dow, but this also took place on below-average volume. Thursday strength brought the DJIA close to 2700, but breadth and volume improvement were minimal. It made one long for the good old days, when men were men and breakouts were breakouts---producing, more often than not, subsequent fireworks on the upside.

The strength in the Dow coincided with like strength in the S & P 500, the Dow Jones Transports, and the NASDAQ OTC Industrials. Ironically, what has been one of the strongest sectors, the DJ Utilities has, so far, failed to produce an upside penetration. Likewise, perhaps more importantly, our breadth index has not yet exceeded its mid-February peak.

The reader may have gathered, at this point, that we find ourselves less than overwhelmed by the week's action. One reason for this may be gleaned from the inspection of the two-point-unit, point-and-figure chart for the S & P 500, reproduced below.



The salient feature of the chart is the sharp January break below the October low of 330, making the entire 360-330 range, which had contained the average since late last summer, look like a distributional top. As we pointed out last week, however, the market's decline halted at the end of January, and there was formed, during the first two months of 1990, a base of sorts, providing an upside platform for this week's move. The objective of that base, is, as we have indicated, in the vicinity of the old high. It is necessary, though, to wonder how easy this will be to achieve in light of the massive supply just overhead.

Market breadth, in the meantime, continues abysmal, with both our daily and weekly breadth indicators having, two weeks ago, moved to new lows. Another indication of weak breadth is the fact that the 10-day advance-decline total reached, back in January, the lowest level it had attained since October, 1987. This, by any standard, denoted an extreme-oversold condition, and from that point the market staged its current rally. This indicator is, of course, a short-term one, but the pattern of successive lows and highs often has longer-term significance. Thus, the appearance of the deepest oversold in two years is characteristic of the latter stages of an upswing, if not a bear market already underway. Given all this, it is not surprising that the follow-up to the breakout was lackadaisical.

Paradoxically, if short-term market strength occurs, it is reasonable to suspect it might be sudden and explosive rather than slow and drudging. This thought is induced by the combination of widespread bearish sentiment among investment advisors and apparent high levels of institutional cash. This is a combination which has produced buying panics in the past (i.e., August, 1982 and July, 1984). Today, however, these conditions are being manifested, not after a decline but against the background of a two-year-old advance, with major averages only modestly below their highs. The possibility of a test of the old highs, in other words, does indeed exist, but absent evidence of further market strength, a sustained advance is difficult to visualize at this time.

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Dow Jones Industrials (12:00)	338.84
S & P 500 (12:00)	2689.64
Cumulative Index (3/8/90)	4874.31

AWT:ebh