

TABELL'S MARKET LETTER

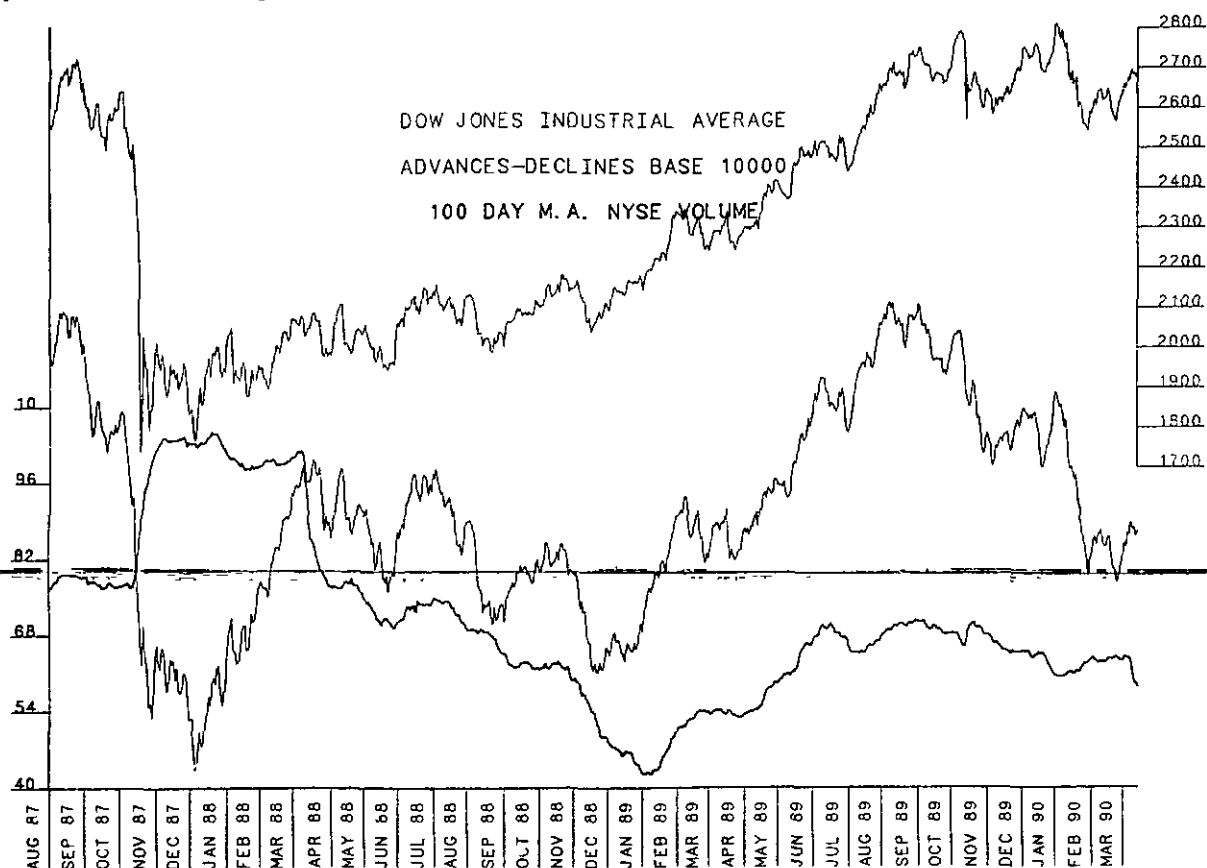
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There has been a fair amount of comment, of late, on the subject of stock-market volume, much of it triggered by the fact that on Monday only 114.8 million shares changed hands on the NYSE. This was the lowest figure for 1990 to date, but it also constituted a record for a still longer period. Inspection reveals that the ten most recent days which saw lower volume were all associated with holidays. For non-holiday trading, Monday's figure was the lowest since September, 1988 and, with the exception of ten days in summer that year, the lowest of the entire bull market.



As the chart above shows, the market has had to contend, of late, not only with deteriorating breadth, but with weakening volume. The breadth weakness since August, a phenomenon to which we have repeatedly drawn attention in this space, shows up clearly in the daily advance/decline line, the center line on the chart. January's breadth high was nowhere close to the peaks of early summer, and breadth had, prior to recent strength, moved to a new low early this month. This is in direct contrast to the series of new highs on the DJIA, the upper line on the chart.

The subject of this piece, however, is volume. It is our practice to smooth this figure with a 100-day moving average, which is shown as the lower, thicker line on the chart. For the 100 days ended December 22, 1987, volume averaged 205 million shares, an all-time record. As the chart shows, it dropped off to a level around 142 million shares in early 1989, and, after recovering somewhat, has posted a new low at 158.2 million shares yesterday.

This record is interesting in light of the longer-term pattern. Through the middle 1960's, volume tended to be a fairly reliable leading indicator. It generally rose during the early stages of bull markets and then peaked, with as much as a two-year lag, prior to the averages' reaching their highs. This lead-time evaporated almost to nothingness in the middle 1960's, and, since that time, volume has tended to top out around the same as the major market indices. The current upswing, therefore, may be the only one on record during which volume has topped out almost precisely at the bull-market start and continued to decline fairly steadily throughout a 62% major-cycle rise.

In light of this history, it is hard to know how to construe the above phenomenon, but it is hard to call it bullish. It has tended to be a technical rule of thumb that falling prices can often occur on diminished volume but that sustained rises usually require expanding activity on the upside. Such activity in the current bull market, though, has been conspicuous by its absence.

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Dow Jones Industrials (12:00) 2717.34
S & P 500 (12:00) 340.53
Cumulative Index (3/15/90) 4872.32
AWT:ebh

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