TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

600 ALEXANDER ROAD, CN 5209, PRINCETON, NEW JERSEY 08543-5209

MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

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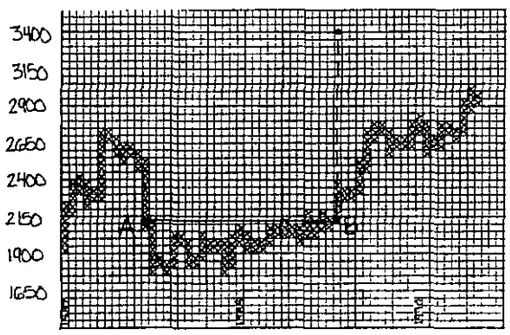
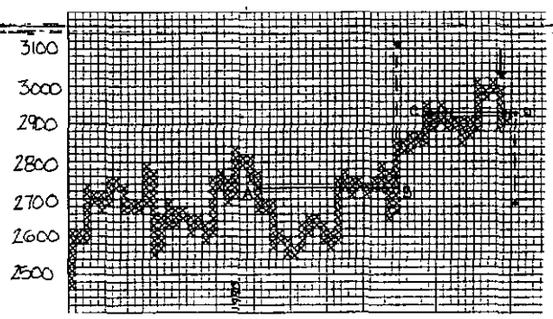
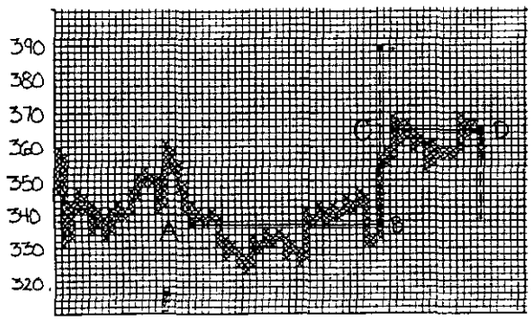
We commented last week on the market's fascination with round numbers, this in connection with the Dow's having spent the week bumping against the 3000 level. Following its failure to close above that figure, the DJIA provided us with another round number, a Monday-morning decline which, at its worst level, exceeded 100 points. What was unusual about this action was not the extent of the decline, but its suddenness, along with the equally sudden recovery of half the loss on Monday afternoon. We would be tempted to call this volatility were we not assured by the academic community that volatility is only a figment of our imagination.

As noted above, the extent of the decline was minor. The Dow was down 3.17% over four days and there have been, for the record, 23 larger declines since the bull market began in October, 1987 and 10 larger ones since the onset of its current phase in November, 1988. The drop will assume importance only to the extent that it is part of a larger pattern. It is probably worthwhile, therefore, to view the recent market pattern as it has been manifested on point-and-figure charts.



The one at left, a 50-point chart of the Dow should be the favorite of the bulls. It illustrates perfectly the base formed between October, 1987 and fall, 1988. Measured across A-B, the upside objective of that base is 3400. The existence of this objective, as we have been noting, has constituted the background for market analysis over the last year and a half. The 50-point chart, however, is too condensed to show the nearer-term picture on the Dow, and for this we can turn to the 20-point chart at right. The chart encompasses action since the October, 1989 break, and its salient feature is the base at A-B, also indicating a higher intermediate-term upside target at 3100. As can be seen, the recent decline, shown by the arrow on the chart, is insignificant. What is significant is the potential top formation, now limited to C-D, which, if a breakout were to take place immediately, would suggest a drop to 2680, a decline of a bit over 10%---one of intermediate-scale proportions. Pessimists, of course, will note that the pattern could broaden into the familiar head-and-shoulders and, eventually, wind up indicating a much lower objective, one which might move through the massive support at, approximately, the 2800-2600 level. Nothing like this, however, appears in the cards at the moment.





The pattern for the S & P 500, shown at left, on a two-point basis, is similar, the A-B base suggesting 388, an upside move similar to one projected for the Dow. The interesting difference in the two averages is in the recent formation. The S & P made only a marginal new high on the June upswing, and the formation has some of the characteristics of a potential double top. Again, like the Dow, a downside breakout would bring the S & P into strong support, the 334 objective being in the middle of the 340-322 support area. It would require an ultimate break of that support to cause major concern.

A pattern for potential weakness does, indeed, exist, and vigilance, as always, will be necessary. Last week's decline, though, did little to alter the basic market picture.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials (12:00)	2915.10
S & P 500 (12:00)	354.42
Cumulative Index (7/26/90)	4879.06

AWT:ebh