TABELL'S MARKET LETTER

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We presented in this space two weeks ago a point-and-figure chart of the Dow along with the following comment thereon. "What is significant is the potential top formation ... which, if a breakout were to take place immediately, would suggest a drop to 2680 ... one of intermediate-scale proportions. Pessimists, of course, will note that the pattern could broaden ... and, eventually, wind up indicating a much lower objective, ... Nothing like this, however, appears in the cards at the moment. "

The top had broadened a little before, last week, it became actual rather than potential, but it did not broaden all that much. There now exists a worst-case downside objective of 2620, but at that level, the Dow would be deep in strong support, and we would expect that support to hold for the moment at least.

We are much happier, in the present instance, being a technician talking about top formations as opposed to an analyst expected to comment on the meaning of the Middle East crisis. Before that crisis occurred, it seemed that most financial comment was centering on supposed massive amounts of institutional cash available and the unlikelihood of immediate severe recession. Suddenly, we are talking about the inevitability of renewed inflation, coupled with rising interest rates and enhanced recessionary prospects.

It is a reasonable suggestion that higher oil prices are bullish for oil stocks, and those issues, contra market, moved ahead---almost as fast as gasoline prices at the pump. It is harder to explain the sharp declines in institutional favorites, i.e. Philip Morris falling from 51 1/2 to 42 3/4 over a two-week period or Wal-Mart Stores from 36 3/4 to 28. We were not aware that the Arabs were heavy consumers of Miller beer or regular shoppers in rural American stores. The fact is, of course, that nobody knows just exactly what the meaning of possible military involvement in the Middle East might be. The reasoning over the past fortnight seemed to be that, in the face of uncertainty, stocks should be sold, and it was most convenient to sell those holdings that had gone up the most.

The sudden and unexpected emergence of military action has a precedent. Between June 12 and July 17, 1950, the Dow, in response to the outbreak of the Korean war, dropped 13.55% over 22 trading days. By October it had recovered all of the ground lost and was to move ahead for another two and a half years.

However, to return to the technical picture, let us, first of all, assess the damage so far. To date, at least, the Dow, as of Tuesday, was down 9.64%, marginally the largest decline since December, 1987. It was certainly not a great deal more severe than the 9.5% drop in January of this year or the four-day drop of just over 8% last October. Such sharp declines are typical of the late stages of bull markets, a description which, we have repeatedly suggested, can be applied to the present. Nor would we wish to bet against the possibility that, following yesterday's recovery, there might occur another leg down to the more pessimistic downside target of 2620 mentioned above. Such action would produce a 13% correction, surpassing the 10% benchmark for an intermediate-term decline. Such declines are likewise typical of mature bull markets, June 1965 being an example which readily comes to mind.

The existing top, in other words, has not, to date, had a chance to broaden further and indicate lower levels than the mid 2600's, and the massive support from late 1989 and early 1990 trading remains, between current prices and the 2520 level on the Dow and the 320 level for the S & P 500. Were this support to be broken, the outlook would admittedly be unpleasant, possibly involving erasure of the entire 1982-1990 advance. While this possibility must be recognized, it is not implied by the pattern as it currently stands.

Allowing for the possibility of another very short-term downleg, as noted above, we would suggest that another upside attempt is then likely. Such an upswing should bring us to the vicinity, at least, of the mid-July highs, and the character of such a rally would give us a better reading than we now possess as to intermediate-term market prospects.

It is, of course, possible that the 2999.75 peak reached on July 16 and 17 will turn out to be the bull-market high. The Dow's failure to penetrate 3000 may become as notorious as its 6 1/2 year failure to better 1000 after closing at 995.15 on February 9, 1966. However, even assuming this to be the case, it is worth recalling that bull markets tend to remain in the vicinity of their highs for quite some time before the worst part of a bear market occurs. 1987 was, of course, an exception, but we do not, at this point, see a pattern similar to that one.

The current downswing can, of course, be seen as yet another link in the chain of evidence indicating market deterioration, and we would not disagree agree with this view. It is less certain, however, that the bull market had, with last month's rally, breathed its last.

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Dow Jones Industrials (12:00)	2732.18
S & P 500 (12:00)	338.30
Cumulative Index (8/09/90)	4965.11

AWT:ebh