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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After spending two weeks holding around the 2685 level, the Dow broke sharply below that area on Thursday afternoon and extended its decline on Friday morning in response to the apparent escalation of the Middle East crisis. The current drop, which is worldwide, is clearly event-driven, reflecting the dependence of the world economy on Arab oil. Similar events, which took the market, and the general public, entirely by surprise, would include the outbreak of the Korean War in June 1950, the Eisenhower heart attack, and the Kennedy assassination.

Strangely, declines of this nature are often not too surprising to the technician. In a great many cases, the market, in an event-driven decline, tends to do precisely what had been suggested prior to the event, the outside occurrence merely providing a "trigger". In the present case, the top foreshadowing the current decline was complete prior to the Kuwait invasion. That event brought about the downside breakout from that July-August formation. We noted last week that the downside target established by that top was 2620, and that level was being approached as we went to press.

The market has now returned to massive support, support centering on the 2600-2700 area for the Dow. It would break below that support were it to move below the 2520 level, thus indicating a considerably lower objective. It is the present task of the technician to assess the likelihood of such a break.

Before venturing on to the hazardous ground of market forecasting, it is best to start off with incontrovertible fact. The most important such fact is that the Dow closed on Monday, July 16, and again on July 17, precisely at 2999.75, a number under the 3000 level by an amount equivalent to 1/8 of a point on one of the 30 components. At that point, it was up by 72% from its level two years and nine months previous in October, 1987. Subsequent to the test of that low, in December, 1987, there occurred no intervening correction of as much as 10%. What took place, simply and unequivocally, is a bull market.

We state this obvious fact because it leads us to frame the proper question. Either the bull market in question ended on July 17, 1990, or it did not. The current decline, now in the vicinity of 12%, was either the beginning of a much more serious downswing, or it will turn out to have been simply an interruption in an ongoing cycle upswing.

There exist persuasive arguments favoring the former alternative. The most telling of these centers around the abysmal breadth shown by the market for what is, by now, more than a year. The high for our own breadth index was scored on August 8, 1989. At that point the Dow was at 2700, slightly above its level at this moment. Breadth, of course, is markedly below its peak. During the past year, in other words, the majority of stocks in the universe available to individual investors has been moving down, masked by strength in the widely-followed market averages. This is the sort of action which, historically, has been the precursor of bear markets.

The problem is, though, that the lead time of breadth on market peaks has, in the past, varied widely, having often extended to well over a year. The start of the breadth divergence which will come to be associated with the end of the 1987-199? bull market almost certainly took place a year ago. Whether that peak was foreshadowing a high in mid-July 1990, or one to occur at a later date, is another question.

Paradoxically, the fact that the Dow has now fallen by more than 10%, a drop which, by standard measurements, must be considered intermediate-term, is not an argument in favor of a bear market's having begun. There have been nine identifiable bull markets since World War II, and every single one of these experienced, somewhere during its upward course, an intermediate-term correction of greater than 10%. Indeed two of the bull markets, 1953-7 and 1978-81, produced no fewer than three 10%-or-greater corrections before finally topping out. In many cases, corrections of this nature occurred late in the bull markets' life cycle, i.e. January-October 1960 and May-June 1965. In other cases they have occurred fairly early (November 1983-July 1984). Since there has been no previous correction in the current advance exceeding 10%, it is arguable, in other words, that we are simply experiencing the normal intermediate-term correction preceding the peak of a bull market.

Likewise, as we noted last week, even the hypothesis of a high having been reached in mid-July is not necessarily all that bearish. In most cases, the market, once having attained what turns out to be its peak, returns to an area relatively close to that peak before a serious break takes place. The one exception to this rule, which may give us some pause, is 1987, but that bear market does constitute a unique occurrence in the fact of an otherwise consistent historical record.

Our long-term view of the cycle framework remains unchanged, and we continue to feel that the bulk of the advance from 1987 levels is behind us. It remains to be seen, though, whether the Iraqi military incursion is necessarily signaling the bull market's end.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials (12:00)	2640.59
S & P 500 (12:00)	328.22
Cumulative Index (8/16/90)	4891.57

AWT:ebh