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

August 31, 1990

The message we attempted to deliver in last week's letter was that, for better or worse, the stock market found itself in familiar territory. The sort of oversold condition that was at least being approached last Thursday constituted a fairly rare occurrence. The record of market action following such occurrences led us to suggest that, in terms of time although not of level, the market might be approaching a low of some importance.

We did not allow for the possibility that the time in question might be measured in minutes, since, as we went to press on Friday, the Dow was under 2500, testing its low of the previous day. Following this test, the market rallied sharply, and, Monday, following less-than-disastrous news from the Middle East, brought sharply higher opening prices. At day's end, an almost eighty-point advance had taken place. By Thursday's close, the DJIA was ahead 6% from its August 23 low and had retraced almost 150 of the 516 points it had declined in July-August, 29% of the ground lost.

If nothing else, the bounceback from the lows provides opportunity to stand back and try to place the rather strange market behavior of summer 1990 within its proper cyclical framework. With the average's having reached an all-time high less than seven weeks ago and having declined from that high by no less than 17%, there are only two possible interpretations of the current cycle environment The first is that July 17 saw the high of a 1987-90 bull market and that a bear-market correction, involving the penetration of last week's lows by an unspecified but not insignificant amount will shortly ensue. The second is that July-August constitutes simply an event-driven interruption to an ongoing advance resulting an a severe intermediate-term downswing, the aftermath of which will ultimately be new highs for the averages. This latter eventuality appears more and more tenuous, but its possibility is worth examining.

Let us take a look at the July-August drop. It involved a 17.21% fall in the Dow over 27 trading days, dropping off fairly steadily with no interruption of as much as 2%. It needs to be noted that, while 17% declines are not uncommon and downswings lasting 27 days or less are frequent, a 17% decline compressed into 27 trading days is a rare bird, indeed. The final phase of the 1987 drop took the average down 34% in just 11 trading days. 1946 also saw the major portion of a bear market compressed into a short period with a 19.4% fall in 25 days. 1974 produced a 21.4% drop over 26 days, and December 1973 a 20.1% fall in the same 27 days that this one has occupied. Other than those four, there have been no declines of comparable steepness since 1940.

One moderately plausible argument consists of the assertion that all this is nothing more than a sample of the way things are going to be from now on. It is possible to contend that, if we can produce a 36% major bear market covering 38 days as was the case in 1987, or an 8% short-term drop within four days as in October, 1989, a 17%, 27-day intermediate-term drop is certainly not out of the question. Thus, the optimist would argue, last Thursday may well have seen the downswing's low.

We are inclined to think that it is far too early to advance such a suggestion. We noted in last week's letter the fact that, by last Thursday, we had entered the sort of oversold territory characteristic of past major bottoms. This is true, but the technician's life would indeed be a happy one if picking bottoms could be equated to simply measuring oversold conditions. Such conditions, unfortunately, tend to occur repeatedly on the way down during the course of major downswings as well as at the ultimate lows, and assessing the differences is the difficult part of the task. One tool for such assessment is analysis of the rebound following the market's attainment of oversold territory. By one measure, the advance from Thursday's low passes with flying colors. A rise of as much as 6% following a low indeed tends to be more characteristic of bottoms than of bear-market interruptions.

Unfortunately, by most other standards, last week fails the test. Monday's 1453 advancing issues, 73% of those traded, fell short of providing reversal evidence, and volume action was, of course, abysmal. If volume is the friend of the bull, as our colleague, Alan Shaw, has noted, the bull was certainly lonely this week. The 79-point-recovery day saw only 160 million shares traded, and the subsequent three days saw volume tail off to even lower levels. True reversal volume at this stage would be in excess of 250 million shares, and a great deal more certainly would apply if volume should approach the 400 million-share level.

It would indeed be encouraging if such reversal evidence could manifest itself, preferably following a successful test of last week's bottoms. Until this takes place, though, caution should be the order of the day.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials (12:00)	2592.57
S & P 500 (12:00)	317.59
Cumulative Index (8/30/90)	4679.55

AWT:ebh