TABELL'S MARKET LETTER

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As suggested last week, the Dow Jones Industrial Average penetrated "sooner rather than later" the August 23 low of 2483.42, posting a closing low on Thursday of 2427.47---a correction to date of 19.08% from the July 17 high earlier this year. Examination of broader-based averages such as the Value Line Index (-24.88) and the NASDAQ Composite Index (-27.64) over the same time period does little to dissuade the investor of the severity of the decline.

The market, having quickly answered for us the question posed last week, "Will a test of the August 23 low turn out to be the ultimate low of the current cycle?", should now be asked by us two obvious questions. First, "How far will the decline go?", and secondly, "How long will the decline continue?".

The answer to the first part may be shown by measuring the past nine declines since the post-war period that were larger than 19%, the decline in the market through Thursday. These percentage swings are shown in the table at right, together with the number of trading days in each period. The average decline of these nine previous periods is 29.32%. This translates, in terms of the DJIA, to a correction of 880 points, and, if taken from the July 1990 high of 2999.75, would indicate a decline in the DJIA to the 2100 level. We are almost two-thirds of the way toward that objective. The 50-point-unit point-and-figure chart of the DJIA is helpful in putting this potential correction into perspective. The top formation, which, obviously, has broken out on the downside, indicates an objective in the 2200-1950 area, coincident with strong support present from the 1987 low. At this time, it would appear that this support should limit the downside risk to this area.

DATE	DJ AVERAGE	% CHANGE	# DAYS THIS SWING
5 29 46	212 50	0.00	0
6 13 49	161 60	-23 95	857
4 6 56	521 05	222.43	1807
10 22 57	419.79	-19 43	389
12 13 61	734.91	75.07	1043
6 26 62	535 76	-27 10	134
2 9 66	995.15	85 75	913
10 7 66	744 32	-25.21	167
12 3 68	985.21	32.36	518
5 26 70	631 16	-35 94	367
1 11 73	1051.70	66.63	665
12 6 74	577 60	-45 08	481
9 21 76	1014.79	75 69	452
2 28 78	742 12	-26.87	362
4 27 81	1024 05	37 99	798
8 12 82	776.92	-24 13	328
8 25 87	2722.42	250.41	1273
10 19 87	1738 74	-36 13	38
7 17 90	2999.75	72 52	693
9 27 90	2427.48	-19 08	51

The second of the above questions is more difficult to answer because of the different types of market bottoms that have occurred in the past. The average number of trading days for the nine declines is 347. Assuming that there are 21 trading days in a month, the average length of the previous corrections would be approximately 16 months. Therefore, it is possible to extend in time the length of the present decline from the July 1990 high into the fall of 1991. However, it is, of course, not that easy. For example, the October 1987 decline lasted less than two months, and the June 1962 decline lasted a little more than six months before the low was reached. In both cases, these corrections were classical selling climaxes from an oversold condition and were over quickly.

What we should expect, short term, in the market is a rally from its current, oversold condition. After such a rally is completed, a test of the market's eventual low, which we may have experienced this week, should be watched closely. Based on past market declines, for this process to be completed, we could expect a lower market some time into next year.

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Dow Jones Industrials (12:00)	2418.56
S & P 500 (12:00)	298.15
Cumulative Index (9/27/90)	4295.62

AWT:ebh