TABELL'S MARKET LETTER

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Long-time readers are well aware of the fact that this letter tends to be a slave to tradition. For more years than we care to count, the last three issues of each year have consisted of (1) a review of the year just passed, (2) a forecast for the upcoming year, and (3) a discussion of the seasonal phenomenon of the year-end really. In accordance with this tradition, the subject of this week's piece will be an overview of the stock market year, 1990.

To begin with, it was a down year. At its current level, around 2600, the Dow was below its December 29, 1989 close of 2753.20, although, admittedly, not by all that much. It has arrived at its present level, however, by a somewhat circuitous route. 1990's year-end rally ended on the first trading day of the year, when the average posted an almost 60-point gain to close at 2810.15. The entire month of January was occupied by the steepest decline in over two years, an intermediate-term correction of 9 1/2%, which dropped the index to 2543.24. However, by mid-July all the ground lost and then some was regained. In one of those numerological quirks beloved of market historians, the Dow's close was 2999.75 on two successive days, July 16 and July 17, the average reaching above the "magic" 3000 level on an intra-day basis, but never managing to close there. It has still not done so. The slide which followed produced a 20% decline in the major averages, with the low, 2365.10, reached on October 11. The two months since that date have seen a rather desultory recovery, the Dow having recouped some 40% of the ground lost as of this week's high.

This less-than-startling 1990 action needs, of course, to be put into context. It came following what had been, in 1988 and 1989, two rather good years. Essentially, the last three years of market action consisted of a 72% advance from October 19, 1987, to July 17, 1990, followed by a correction from July to October. What needs to be stressed about this pattern is just how boringly conventional it is. The percentage advance of 72% is almost identical to that of March, 1978 to November, 1980 (62%), October, 1974 to September, 1976 (73%), and May, 1970 to January, 1973 (74%). Bull markets ending in 1961 and 1966 posted similar advances. Likewise, the 33-month length of the upswing, although slightly on the short side, is not all that unlike previous upward cycles.

Our readers are well aware that we are firm believers in the premise that the stock market exhibits cyclical behavior. We have been able to identify some 25 completed cycles since the Dow was first computed in 1886. These cycles, measured from low to low, have averaged 46 months in length and have thus been given the common appellation "four year cycle." It is only necessary to repeat the dates of major market lows in the modern era---June 1949, September 1953, December 1957, June 1962, October 1966, May 1970, December 1974, March 1978, August 1982---to see how ubiquitous this particular pattern has been. Admittedly, there has been of late, some difficulty in interpretation. As recently as August 1982, it will be recalled, the Dow was as low as 776. By August 1987, it had advanced 250% over 5 years, after which it declined 36% in two months. It is hard to know whether to term this a 62-month, abnormally long market cycle, or to break it up into two unusually short cycles, calling the 16% drop of November 1983 to July 1984 a cycle bear market. It does not really matter. It is patently obvious that October 1987 constituted a major low point. 38 months have passed since that date.

1990, in other words, fits precisely into the four-year-cycle pattern. The first six months of the year capped a 2 1/2-year-long advance, and the decline so far has produced the 20% drop qualifying it as a bear market. The only thing that remains to complete the context is the question of whether the bear market ended two months ago, or whether it might continue into next year. Both the extent and the length of the decline so far remain somewhat below average, but the hypothesis of a low's having occurred in mid-October is not that wildly out of line with past behavior. It must be also noted that a still further decline into early 1991 would be even less out of line with market history, but that is a proper subject for next week's letter.

We would be remiss were we not to include, in this review of the past few years, some discussion of the behavior of secondary stocks. The Value Line Composite, as good a proxy as any for these stocks, was, in June 1983, at 208.51. The Dow at that time was in the mid 1200's. The Value Line is now around 196, lower than it was over seven years ago. The DJIA has, over the same period, more than doubled. The past year, and indeed a large part of the last decade, have constituted of a major bear market for smaller stocks, especially if this action is considered relative to that of the larger companies included in the Dow and the S & P 500. This statistic may be as important to a year-end review as is the action of the averages discussed above.

This, then, will be the context for our forecast next week, a bull market completed in mid-1990, a subsequent bear market which may or may not be over, and ongoing inferior price action for secondary stocks. Whether these particular attributes will remain or disappear in 1991 will be the subject of next week's letter.

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Dow Jones Industrials (12:00)	2587.38
S & P 500 (12:00)	326.11
Cumulative Index (12/13/90)	4546.18

AWT:jb