TABELL'S MARKET LETTER

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We find ourselves, it would seem, in an unusual equity market, one beset by cross currents and torn by conflicting forces. In terms of the Dow, yet another new-high was achieved on Tuesday with a close at 3397.99. The round-number phenomenon has once again appeared, and the Average, for the past couple of weeks, has engaged in a flirtation with the 3400 level, exceeding that number on an intra-day basis and on a few ticks but not, so far, managing to close there. The Dow's performance, as we and just about every other market commentator on the face of the earth have pointed out, blatantly overstates the bullish case. The S & P 500 did, admittedly, when it reached 418.49 on May 11th, manage to post a new three-month peak. That peak, however, was still below the broader index's 1992 high, achieved back on January 15th at 420.77, at which time the Dow was 150 points under its mid-week level. Moreover, the S & P has gone back, in the past few days, to underperforming, failing, this week, to better its mid-May high.

Almost any measurement one cares to look at suggests the narrowness of present leadership. Not since February has the NYSE been able to produce over 100 daily new highs, despite repeated new thrusts by the DJIA. Meanwhile a glance at the actual names comprising the new-high list suggests an even more dismal picture. Of the 72 new highs posted on Wednesday, 31, or almost half, were Preferreds, an indication, perhaps, of higher bond prices rather than a strong stock market

Optimists, of course, can point to what can now be acknowledged as an earnings recovery We would certainly agree than such a recovery is underway, although its vitality is suspect and probably will remain so, at least until second-quarter earnings make their appearance. Current levels of valuation, though, certainly allow for almost any recovery prospects remotely in sight. It is arguable that, to use an old cliche, present prices are discounting not only the future but the hereafter.

And yet, withal, the market continues to maintain its current levels, making new peaks on the Dow and at least remaining in sight of those peaks in terms of the broader indicators. Meanwhile, none of the technical negatives cited above should be, by this time, unexpected news. The time is long gone when there were only a few of us laboring in the technical vineyard, and the basic concepts of market breadth and leadership are widely understood throughout the investment community. Widely heralded signs of technical weakness have, thus far at least, failed to dissuade most buyers of equities.

The same is true of valuation factors. It seems to us now to be common knowledge that present levels of p/e ratios and yields have, just about invariably, led in the past to stock-market difficulties---indeed for the most part to major bear markets. Yet we have seen in just the past two days new highs on the Dow.

Billions of Dollars				
	Sales	Net Sales	Total Assets	Cash Ratio
AVG 1986	4.819	2.602	148.174	9.67
AVG 1987	5.974	2.660	205.883	9 66
AVG 1988	2.553	0.328	191.579	10 31
AVG 1989	4.464	1.259	226.768	9.75
AVG 1990	6.013	2.153	246.795	11.81
AVG 1991	8.078	3.595	309.732	9.22
JAN 1992	13.484	7.248	375 022	7.92
FEB 1992	11 373	6.555	387.076	7.99
MAR 1992	15.448	7.914	383.557	8.60
AVG 1992	13.435	7.239	381.885	8.17

There is an old saying that "money makes the mare go", and this is equally true of the stock market, now perhaps as much as ever before. What has kept prices at their current levels, it seems clear to us, is a monster influx of new investment funds. One source of such funds is obvious---equity mutual funds. The table at left shows the average monthly level of new sales, sales minus redemptions, total assets and cash ratio for such funds for each year from 1986 to 1991 along with individual figures for the first three months of 1992 and average for the year so far. Note that new sales in 1992 have so far been close to three times their level of 1986-7 and almost twice that of 1991. In terms of net cash inflow, sales minus redemptions, the increase in recent years is even more startling. Net inflow for 1992 so far remains 2-3 times what it had been in any year since 1986. On average, a net of some $7 billion a month has been pouring into equity funds since the beginning of the year.

There exist, meanwhile, other sources of fuel for the market fire which, although less measurable, may even dwarf mutual funds in magnitude. A pointer to one of those sources may perhaps, ironically, be found in the anatomy of a recent economic disaster, the Olympia & York bankruptcy, which may, along with the empty and half empty office building dotting the country, be taken as a symbol of the current sad state of the real estate market. The point is, though, that those empty buildings were, over the past few years, the consumers of massive amounts of investment capital. Whatever one may think about the prospects for real estate recovery, it appears obvious that any growth in rentals over the next few years will go to filling existing vacancies not to new construction. These dollars represent another aglomeration of funds which has probably been finding, and may well continue to find, its way into the equity market

The future course of this new flow of funds is of course unclear. How quickly could it dry up and thus, if alternative sources did not emerge, engender market weakness? Or could the flow---along with economic recovery--increase and thus continue to propel stock prices to new high levels. We are dealing here, it seems to us, with a phenomenon of human behavior, and as always, technical work will, we think, be helpful in determining the course of that behavioral phenomenon

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Dow Jones Industrials (12 00) 3390 18
Standard & Poors 500 (12:00) 414 56
Cumulative Index (5/21/92) 7374.04