

# TABELL'S MARKET LETTER

*Delafield, Harvey, Tabell Inc.*

5 VAUGHN DRIVE, CN 5209, PRINCETON, NEW JERSEY 08543-5209

MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC  
(609) 987-2300

June 12, 1992

It has been widely reported just about everywhere that the Dow Jones Industrial Average is outperforming just about every other market indicator, especially the S & P-500. This phenomenon, however, has not often been examined in great detail, and an attempt at some specifics, therefore will be made here.

Date	DJIA	% Chg	S&P 500	% Chg	Ratio
10-Dec-91	2863.82		377.90		13.20
03-Jan-92	3201.48	11.79	419.34	10.97	13.10
13-Jan-92	3185.60	11.24	414.34	9.64	13.01
16-Jan-92	3258.50	13.78	420.77	11.34	12.91
17-Jan-92	3284.98	14.01	418.86	10.84	12.83
28-Jan-92	3272.14	14.26	414.86	9.81	12.68
31-Jan-92	3223.39	12.56	408.79	8.17	12.68
12-Feb-92	3276.83	14.42	417.13	10.38	12.73
26-Feb-92	3283.32	14.65	416.35	9.91	12.85
03-Mar-92	3280.25	14.89	412.85	9.25	12.66
08-Apr-92	3181.35	11.09	394.50	4.39	12.40
11-May-92	3397.58	19.64	418.49	10.74	12.32
01-Jun-92	3413.21	19.18	417.30	10.43	12.23
10-Jun-92	3343.22	16.74	407.25	7.77	12.18

It is appropriate to start some six months ago, when, on December 10, 1991, the DJIA made its most recent low at 2863.62. The table at left shows the closing price for the Dow on selected dates since that time and its percentage change since the base date. The same information for the same dates is shown for the 500, and the final column simply shows the ratio of the two—the S & P divided by the Dow. Of this, more later.

The table clearly shows the DJIA's superior performance. Its first rally, to January 3rd, was greater, and, by January 15th, the 500 was to score its high for the year so far, even at that high, being up less than the Dow. The latter continued to new highs on January 17th and 28th, but the corresponding figures for the S & P were lower. After a correction, the Dow, at the end of January, was ahead by half again the 500's 8% rise.

The next S & P high was on February 12th, and again the Dow proceeded to new peaks with the broader indicator failing to do so. By the end of the next correction in April, the DJIA was ahead almost twice as much. The Dow scored a significant new peak in early May, and the S & P failed to do so. Finally, an

unconfirmed new DJIA high took place on June 1st, and, as of Wednesday, that average was ahead 16.74% vs 7.77% for the 500. Naturally the ratio of the two has been steadily declining.

The table at right attempts to provide some explanation of why this may be so. The Dow, remember, is a price-weighted average, so the higher a given stock's price, the more weight it possesses in the index. Also, due to Dow Jones method of split adjustment, the divisor is now around .48, which means that every point move in a given stock results in something greater than a two-point rise in the Average itself.

In any case, the table shows how many points of the DJIA's 480-point move since December 10th each individual stock has contributed. (The numbers do not add up to exactly 480 due to statistical complications, but they are close approximations.) The stocks are shown in order of their contribution to the Average's advance.

As can be seen, of the first eight stocks in the list, seven are cyclical issues which, as we have been pointing out, have of late been assuming leadership. Those seven stocks have accounted for 239 points or just about half of the Dow's total rise. Meanwhile, the amount subtracted from the Average's performance by such consumer-nondurable issues as Coca Cola, Philip Morris, and Merck has been relatively small.

The picture for the capital-weighted S & P 500 is quite different. No fewer than seven drug issues, for example, are among the thirty stocks having the largest weight in the Standard & Poors Composite, and all are actually down for the period. These issues alone have managed to subtract almost three points from the broad index's total rise of just under thirty points.

The ratio of the S & P to the Dow, shown in the table at the top of the page, is as good a measure as any of the former's relative underperformance. It has declined from 13.20 to 12.18, a drop of 7.58% in 126 trading days. Such underperformance is a fairly rare event. Since 1937, there have only been five instances in which the decline in the ratio was greater than seven percent over a period of comparable length. Interestingly, a couple of these have, contrary to widely held belief, occurred around major bottoms. One case was from June to August 1970, and another from July through September 1984. There exists a wide body of work which suggests that underperformance by the S & P is bearish, but there may well be an exception in extreme cases such as the present. We intend to examine this issue further in future letters.

POINTS CONTRIBUTED TO ADVANCE IN DOW JONES AVERAGE					
Alcoa	44	Chevron	18	Beth Steel	8
Allied Sig	40	Texaco	18	IBM	8
Caterpillar	40	Seare	17	Philip Morris	7
Goodyear	37	MMM	17	Westinghouse	8
Procter & G	35	Coca Cola	14	Intl Paper	6
Genl Motors	31	Exxon	13	Boeing	2
Union Carbide	24	Du Pont	13	Woolworth	2
Genl Elec	23	Amer Exp	11	Merck	-5
McDonalds	22	Amer Tel	11	Eastman Kod	-11
Disney	21	Unid Tech	11	JP Morgan	13

ANTHONY W. TABELL, CMT  
DELAFIELD, HARVEY, TABELL

Dow Jones Industrials (12:00) 3370.18  
Standard & Poors 500 (12:00) 411.30  
Cumulative Index (5/7/92) 7325.16

No statement or expression of opinion or any other matter herein contained is, or is to be deemed to be, directly or indirectly, an offer or the solicitation of an offer to buy or sell any security referred to or mentioned. The matter is presented merely for the convenience of the subscriber. While we believe the sources of our information to be reliable, we in no way represent or guarantee the accuracy thereof nor of the statements made herein. Any action to be taken by the subscriber should be based on his own investigation and information. Delafield, Harvey, Tabell Inc. as a corporation and its officers or employees, may now have, or may later take, positions or trades in respect to any securities mentioned in this or any future issue, and such position may be different from any views now or hereafter expressed in this or any other issue. Delafield, Harvey, Tabell Inc., which is registered with the SEC as an investment advisor, may give advice to its investment advisory and other customers independently of any statements made in this or in any other issue. Further information on any security mentioned herein is available on request.