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

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Most of the week's market action featured a recovery attempt from the decline which had reached a closing DJIA low of 3274.12 last Thursday. There occurred a couple reasonable advancing days—over 1000 advancing issues last Friday and this Tuesday. The Dow, however, pulled back as it touched 3300 at mid-day yesterday.

This was not surprising. 3400-3300, the area of the original top on the Dow constitutes fairly heavy overhead supply, and a great deal more demand than has so far been manifested is going to be required for that supply to be penetrated. It remains our suspicion that the present test of the overhead will be unsuccessful and that the current short-term decline will press on to new lows probably somewhere in the low 3200's. As we noted last week, we think the ability of the 3200 level to hold will constitute the next important market test.

Meanwhile, the familiar pattern of the Dow's outperforming just about everything else in sight continues, and the other indices continue to form their own patterns. As recently as Tuesday, the Dow Transports moved to a new low below 1300, suggesting an ongoing downtrend. This drop, moreover, takes the DJTA below its bottom of April 8th, a figure which the Industrials, whose April low was 3181, have not yet breached. The Transports are now down some 12% from their February closing high of 1467.68. As is the case with the Industrials, it would appear that the DJTA is about to test major support, the demand level for this indicator occurring, roughly, at the 1250-1100 area. The existing top would suggest that a good sized thrust into this support area might take place. As is the case with the DJIA, a break below this support could have serious consequences.

The Dow Utilities have, for whatever reason, the best pattern of all the major averages. An outstanding very-long-term pattern developed when, in early December of last year, this index moved above the 220 level. Since that time its relative action has been poor, and it has not been able to post a new high in 1992. Indeed, in March-April it moved down into the low 200's, testing an area of strong support. At the moment, the Utility Average's ability to move above 215 would suggest that an attempt at that late-1991 peak might be made. A break below 210 would postpone this but would, at the moment, call for nothing worse than another probe into the strong support.

The S & P Industrials and the similarly-configured NYSE Industrials are now close to important tests. Their price patterns both look vulnerable and are close to important downside breakouts. For the S & P indicator the downside breakout level would be 470 vs. a close last night of 474.81. The NYSE Industrial Average, now at 274.73 would break down at 272. Given downside breakouts, the prospect for both averages would be a test of support, at 460-440 for the Standard and Poor's Index and at 270-260 for the New York Stock Exchange Indicator.

If utility averages, as suggested above, have the best long-term potential patterns, the best immediate relative strength is being shown by financial indicators. The S & P Financial Index was attaining new highs earlier this month above the 35 level. It has since pulled back only modestly from those highs. Moreover the ability to break above 32 early this year strongly suggests that the post-1989 trading pattern might have been a head-and-shoulders base with ultimate targets in the high 40's.

When we come to discussing the patterns for those averages covering secondary stocks, some interesting issues arise. Let us begin with the OTC Industrials. On February 12th of this year that index reached a high of 741.90. It was, at that point, up 115% from its October, 1990 low. This was a rise between two and three times as great as that of the S & P 500, which rose only 41% over the same period. However, since that February high, it has moved down to a low of 584.80 last Thursday, a fall of 21.18%, one which, if it had taken place in one of the major averages, we would have to call a major bear market. The important question is how much of this recent weakness is of cycle proportions and how much is simply due to the greater volatility of OTC stocks. True, the 20%-plus decline so far this year is more than four times as great as the comparable Standard and Poor 500 drop of a bit under 5%. However, even at its low of last week the over-the-counter indicator is ahead 70% from its 1990 low while the Composite is up only about 35%. What would be truly useful to know is whether, on a long-term basis, we have ended the long era of underperformance by secondary stocks and embarked upon a cycle-length period of outperformance. As our readers know, it is our own view that this is the case, and that a new era of better action by secondary issues began in 1990. None of this, however, is to deny that wide swings in secondaries will not continue or that such issues will not continue highly vulnerable in weak markets, as has been the case of late.

Lastly, it is necessary to consider the question of breadth. As could well be expected, with the DJIA strongly outperforming most broader averages, it has also been outperforming all breadth indicators. Our own daily breadth index made its high on February 12th—back in that January-March period when most non-DJIA averages were reaching their peaks. It reached a new low and its maximum divergence from the Dow in mid-April. That mid-April low, interestingly, was broken last week. It is now 92 days since breadth reached its high, and, when the Dow peaked back on June 1st, the divergence was 75 days long. Breadth divergences have lasted longer than this, but the index is now a sufficient distance below its high that ultimate confirmation, while not impossible, seems unlikely.

What are we to make of all this? We seem, in summary, to be seeing a market which, from a technical point of view, has been growing progressively weaker since early this year—that weakness to some extent being masked by strength in the sort of issues which dominate the Dow. The weakness has not yet extended to the point of being fatal. It is, however, given absence of renewed demand, to become terribly excited about the immediate upside possibilities in today's equity market.

ANTHONY W. TABELL, CMT
DELAFIELD, HARVEY, TABELL

Dow Jones Industrials (12:00)	3287.49
Standard & Poors 500 (12:00)	403.39
Cumulative Index (6/25/92)	7290.48