TABELL'S MARKET LETTER

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A spate of profit-taking interrupted the improving technical market action which had featured the second half of July. Through Monday, the Standard & Poors 500 had extended its streak of new all-time highs, closing at 425.09, comfortably above the January level of 420 which had been that indicator's prior record. The Dow reached 3395.40, a shade below its June 1st peak of 3413.21. By week's end both averages had retreated modestly from these levels.

Last week we cited, along with the S & P, a number of financial statistics which were setting records. One area which we lacked the space to discuss was interest rates, especially short-to-intermediate-term interest rates. Such rates have been plummeting and the prices of fixed-income instruments correspondingly rising. An almost-hundred-basis-point drop in Treasury-Bill yields has taken place since April, bringing that rate close to the even-three-percent level. Placing further pressure on savers, the rate for 90-day certificates of deposit has moved under three percent in the past couple of weeks. Relatively short government bonds have moved ahead two and three points, affording a short-term windfall to conservative investors. Meanwhile there continues to be talk of even further Fed ease.

The interest-rate fall, though, is hardly a new phenomenon. The most recent phase of a long-term plunge in rates can be dated as having begun some 40 months ago, in March-April 1989. T-Bills at that time sold to yield over 9%, and CD rates were close to 10%. The drop since then is actually the longest-in-duration interest-rate drop in over forty years and is now approaching being the second-longest swing in rates---either up or down---in that same forty-year period.

Let us make that statement a little more specific. It is our practice to measure swings in market statistics by the application of a percentage filter, tracing each rise and fall of a given percentage without a like reversal over the duration of the series. It is perfectly possible to apply this technique to interest rates, and we thus applied a 20% filter to the monthly average of 3-month Treasury-Bill rates since 1950. From their April, 1989 average of 9.19%, bill rates fell to an average 3.65% for July 1992, a sixty-percent drop. The closest previous approximation to this decline was a 52% drop in rates, from 11.01% to 5.27% between September, 1984 and September, 1986. That, however, only took 24 months.

There have been three largely uninterrupted upswings in rates which have equalled or exceeded the present downswing in duration In the forty months between June, 1954 and October, 1957, rates rose from 0.63% (really) to 3.70% an almost sixfold increase. They set an all-time record by rising steadily from August, 1960 (2.14%) to October, 1966 (5.44%), advancing for no fewer than 74 months. There also occurred a 39-month upswing from January, 1977 to April, 1980, which took bill rates from 4.42% to 14.98%

All of these swings, though, can, as we have pointed out, be seen as components of a much longer-term pattern. Interest -rate cycles have been studied and identified back to the eighteenth century, and the presence of cyclical swings having a length of twenty years or more has been recognized. In June, 1920, Moody's AAA Industrials provided a yield of 6.47%, the high of a rise that had occupied the entire early part of the 20th century. By December, 1940, that rate had been cut by two thirds to 2.28%, and long-bond rates did not move much off that level throughout World War II. 35-40 years later, in October, 1981, long rates peaked just under 15%. They have been falling ever since---to current levels approaching 8%. It is, in our view, important to recognize that the current swing is only ten years old, and, if history is any guide, the current trend toward lower interest rates could go on for at least another decade. This is not to say, of course, that the current extended rate-drop referred to above could not undergo a fairly protracted correction at almost any time.

Approximate Yield at Original Issue For Maturing Treasury Debt

Maturity	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
1992	3.96	4.67	7.74	8.51	10.69	5.59
1993	-	-	7.66	8.93	11.58	7.11
1994	-	-	5.74	7.73	11.50	7.70
1995	-	-	-	7.92	9.62	8.12
1996	-	-	-	6.48	7.15	7.48
1997	-	-	-	-	8.99	7.52
1998	-	-	-	-	9.09	8.73
1999	-	-	-	-	7.83	10.08
2000	-	-	-	-	8.25	12.30
2001	-	-	-	-	7.38	13.38
Current	**3.77**	**4.05**	**5.31**	**6.78**	**7.12**	**7.45**

The table at left attempts to illustrate a current phenomenon produced by falling interest rates. As older debt matures these days, it becomes difficult to invest funds received at the original yield. The table shows, for debt maturing in December, 1992 to December, 2001 what the approximate yield was at the time of original issue. Thus the purchaser at issue of six-month bills maturing this December had been receiving a 3.96% return on his money, the original purchaser of a 1-year note, 4.67% and so on. The subsequent rows show comparable figures for debt maturing in subsequent years. The bottom row shows the returns for instruments purchased today. The table demonstrates that it is basically impossible for the holder of maturing debt of lengths up to ten years to reinvest his proceeds at a like return.

This has, of course, produced pressure on other investment media. The popularity of bond funds suggests that CD and other short-term money is actively chasing higher yields. There is likewise some evidence that investors are seeking higher returns in the equity market. Implicitly, of course, these investors are counting on capital gains, since stock yields, by and large, do not approximate those available, even today, on fixed-income securities. The implications of such expectations for the current technical condition of the stock market are, of course, yet another topic.

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Dow Jones Industrials (12:00)	3355.96
Standard & Poors 500 (12:00)	422.14
Cumulative Index (8/7/92)	7615 06