TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

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The recent short-term action of the stock market remains constructive as the Dow-Jones Industrial Averages advanced 25.10 points over five straight trading days through Wednesday of this week. The averages broke out of a minor base on our 2-point and 5-point unit charts, respectively, indicating a short-term upside objective of 974-980. As the averages approach these levels, conventional wisdom would indicate the heavy overhead supply at 980-1020 would necessitate a pause or possible test of the previous lows. It appears we are in the process of broadening a potential base which would be sufficient enough to ultimately penetrate the supply previously mentioned. This type of sideways action leading to a more important base formation is viewed constructively; however, a major ingredient in this process of formation will be time.

The New York Stock Exchange earlier this week released their monthly figures of NYSE firms carrying customers' stock margin accounts. Margin debt increased again in February and for the 17th month in the last 18 has not declined. Margin customers of the NYSE member firms added $210 million to their indebtedness, bringing a total margin debt to a record $8,480 million at month end. This is the third month in a row customers' margin debt posted an all-time high in the series that dates to January, 1965. The former record of $7,900 million was set in December, 1972.

The number of margin accounts for the same period between December, 1972, and February, 1977, has increased from 750,000 to 840,000. Although margin debt is at an all-time high, it is interesting to note that the number of margin accounts is still, after almost ten years, well below the level set in September, 1968, when margin accounts numbered 945,000. In the following exhibit, we compare margin debt to margin accounts and show this as a ratio. We have taken the highs and lows of margin debt and compared them to the corresponding major highs and lows of the DJIA.

EXHIBIT I

	Margin Debt(mil)		Accounts (thou)	Ratio	Date	Dow-Jones
June, 1968	High	6690	940	14.05	11/29/68	985.08
July, 1970	Low	3780	770	20.37	5/26/70	631.16
December, 1972	High	7900	750	9.49	1/11/73	1051.70
December, 1974	Low	3910	625	15.98	12/ 6/74	577.60
February, 1976	High	8480	825	9.72	9/29/76	1041.79

From 1965 to date the range of this ratio is 20.37 high on July, 1970 and 9.35 low on October, 1972. The ratio tends to be high at market bottoms (July, 1970 and December, 1974) and low at market tops. The relative high ratio in June, 1968, a market high, can obviously be attributable to the large amount of speculation in the market. Also, the ratio peaks before a market high and after a market low. If these observations are correct, the recent or a subsequent high in customer margin debt would indicate the DJIA could be higher at a later date.

EXHIBIT II

	Margin Debt		Total Market Value	Percentage	Date	Dow-Jones
June, 1968	High	6690	641037	1.043	11/29/68	985.08
July, 1970	Low	3780	531077	.712	5/26/70	631.16
December, 1972	High	7900	872000	.906	1/11/73	1051.70
December, 1974	Low	3910	511054	.765	12/ 6/74	577.60
February, 1976	High	8270	802504	1.031	9/29/76	1041.79

Another way we are able to analyze the customer stock margin debt is to compare it to the total market value of equities listed on the NYSE. From 1965 to date the range of the percentage of margin debt to total NYSE market value has been 1.10% high on September, 1966, and .597 low on January, 1971. The observations seem to be the same. The higher the percentage of margin debt to market value, the higher the averages and, conversely, the lower the percentage, the lower the averages.

Although the above exhibits would allow for stock prices to go higher, one set of figures released by the NYSE would argue this point. Customers carrying margin accounts under 40% equities now stand at $1.5 billion or 18% of total margin debt. In simplest terms, this means the quality of credit has deteriorated during the month of February with 18% of the debt in accounts in the lowest equity class against 15% in the same class in January. It should be remembered in August of 1974, this ratio reached a high of 23%, a series record, and was thought to be a major contributor to the decline in late 1974.

Dow-Jones Industrials (12:00 p.m.) 962.85
S & P Composite (12:00 p.m.) 102.03
Cumulative Index (3/17/77) 661.76
RJS/jb

ROBERT J. SIMPKINS, JR.
DELAFIELD, HARVEY, TABELL