

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 outperformance by secondary and tertiary stocks of their senior counterparts contained in the market averages has by now reached the status of common knowledge. Market technicians, not surprisingly, were the first to draw attention to this situation, and our readers will be aware that our own comments on the subject have been reiterated ad nauseam. The phenomenon has been so widely noted that all market analysts are now expected to have opinions on the subject, and, not unexpectedly, those opinions are divided, ranging from predictions of its imminent end to total inability to find any indication that outperformance by secondaries is unlikely to continue.

We confess our own bias toward the latter view, and we suspect that many of the forecasts of the collapse of secondaries represent wishful thinking on the part of those who have been avidly embracing the indexing fad of the past couple of years. Indexing, it will be recalled, was based on the rationale that few investors were able to outperform the market averages and that, therefore, a sensible investment policy involved duplicating the performance of those averages. With large pools of money having become invested, admittedly or otherwise, so as to duplicate the averages, it was predictable that the averages would begin to underperform just about everything in sight. Such, of course, has been the case.

It is perhaps worth documenting just how dramatic the outperformance of secondary issues has been. The following table shows levels of four market averages at recent dates in the past. Each average has been restated to make its level of September 30, 1973, equivalent to a base of 100. The comparative results are not without interest.

9/30/73 = 100

| <u>DATE</u> | <u>DJIA</u> | <u>S & P 500</u> | <u>Cum. Index</u> | <u>Amex Index</u> |
|---------------|-------------|----------------------|-------------------|-------------------|
| Dec. 31, 1974 | 65.07 | 63.23 | 47.32 | 57.05 |
| Feb. 27, 1976 | 102.69 | 91.96 | 82.64 | 97.77 |
| Oct. 29, 1976 | 101.88 | 94.90 | 80.33 | 93.52 |
| Mar. 31, 1978 | 79.97 | 82.27 | 92.00 | 121.95 |

As can be seen, the American Stock Exchange Index and our Cumulative Index of all NYSE issues declined a great deal more than the market throughout the downswing of 1973-1974. The Cumulative Index lost more than one half its value and ASE stocks, on the average, showed a drop worse than the one-third fall which took place in the widely-followed indicators. As could be expected, the bounce-back of the broader indicators in the 1974-1976 bull market was likewise more dynamic. This dynamic upswing caused the ASE Index, like the Dow, to recover almost all its loss, although, despite a 75% rise, the Cumulative Index failed to post a full recovery. None of the averages did much through the middle part of 1976, but close study can now date the superior performance on the part of secondaries as having begun around November of that year. It is interesting to note that in the 17 months since November, 1976, the Cumulative Index has outperformed the Dow on a month-to-month basis in 14 of 17 cases and the S & P in 15 of 17. The ASE Index has outperformed both indicators in 16 of the 17 months.

The net result, of course, as the table shows, is that the investor in both the Dow and the S & P in the fall of 1973 now shows a substantial loss versus a modest loss in the Cumulative Index and an astonishing 22% profit in the average American Stock Exchange issue. The performance over the past 17 months is even more astounding. Over that period the Dow and the S & P have dropped by 22% and 14% respectively. Meanwhile, the Cumulative Index has appreciated 14.5% and the Amex Index more than 30%.

It is interesting to hypothesize four investors who started out with equal amounts of capital at the end of October, 1976, and whose performance duplicated each of the four averages. The investor who duplicated the Cumulative Index now possesses almost one and one half times as much capital as the investor in the Dow and the investor in the ASE Index 1.6 times as much. It is also interesting to project what would happen were the same performance ratio to continue for another year. At that point the Cumulative Index would be at almost twice the relative level of the Dow and the ASE Index at 2.4 times the same level. Investment results, if the current performance pattern continues, could, indeed, be impressive.

Dow-Jones Industrials (12:00 p.m.) 765.94
S & P Composite (12:00 p.m.) 89.93
Cumulative Index (4/6/78) 685.82
AWT:rak

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

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