TABELL'S MARKET LETTER

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The stock market, since the February 28th low of 742.12 as measured by the Dow Jones Industrial Average in 71 trading days is up 124.39 points or 16.76% without a significant correction to date. In the face of this advance, bank trust departments and mutual funds were net sellers of equities during the first quarter of 1978. Where then is the recent strength in the stock market coming from? Logically, the source of the "buying panic" can be attributed to institutional and foreign buyers reversing dramatically their position of the previous quarter. Nonetheless, the institutional community is embarassed as their soon-to-be-released June 30th quarterly reports will no doubt show.

Another source, however, that should be examined is the individual investors. An excellent proxy to examine the potential buying power of the individual investor is New York Stock Exchange margin debt. During April, margin customers increased their indebtedness to New York Stock Exchange member organizations by $340 million -- the largest monthly increase since December, 1976. Stock margin debt totaled $10,260 million at the end of April. A new record! The number of margin accounts jumped from 900,000 to 915,000 at the end of April. 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 hit in 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 then taken recent major highs and lows of margin debt and compared them to the corresponding significant highs and lows of the DJIA.

EXHIBIT I

	Margin Debt (mil)	Acc'ts. (thou)	Ratio	Total Mkt. Value	Ratio	Date	Dow-Jones
June, 1968	High 6690	940	14.05	641037	1.043	12/3/68	985.21
July, 1970	Low 3780	770	20.37	531077	.712	5/26/70	631.16
Dec., 1972	High 7900	750	9.49	872000	.906	1/11/73	1051.70
Dec., 1974	Low 3910	625	15.98	511054	.765	12/6/74	577.60
April, 1978	High 10260	915	11.21	821000	1.250	6/6 /78	866.51

From 1965 to date the range of this ratio is 20.37 high on July, 1970 and 9.49 low on December 1972. The ratio tends to be high at market bottoms (July, 1970 and December, 1974) and low at market tops (June, 1968 and December, 1972). The relative high ratio in June, 1968, a market high, can be attributable to the large amount of speculation in the market. Also, the ratio peaks before a market high and after a market low.

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. The observations seem to be the same. The higher the ratio of margin debt to market value, the higher the averages and, conversely, the lower the ratio, the lower the averages. But in both cases from the 1974 low to date the behavior of the margin debt series has changed. The Dow Jones Industrial Average has moved from 577.60 in December, 1974 to 1004.65 in December, 1976 (+73.9%) to 742.12 in February, 1978 (-46.4%) to the present Dow 866.51 (+16.8%). During this same period margin debt increased without correction from its 1974 low of 3,910 million to 10,260 million (+160%).

Matters are quite different today than the days of the 50's and early 60's when average daily volume on the "Big Board" was fewer than 5 million shares and most trades were between individuals. Margin debt is being used by the individual in different ways. In the last number of years, margin accounts have been used to purchase high-yielding securities rather than speculative issues, the cost of borrowing in some cases being less than the yield of the securities purchased. This in fact has created greater stability in the type of securities held in the individual margin account. Another effect on the margin debt series has been the various uses of options. An obvious example is the individual writer of naked options who receives a margin call as a stock goes up. This is a classic reversal of the historic effect of margin calls for declining stocks. Also, the use of options has provided greater liquidity to margined stocks. Finally margin debt is used for non-purpose loans by individuals who find it easier and in some cases cheaper to borrow.

These factors have had an effect on another statistical series that is positive for the stock market -- the quality of security credit. Percentages of margin debts in accounts with equity under 40% fell to 1,550 million representing 15% of debt and 11% of the accounts. 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. Therefore, these new influences in the margin debt series can be viewed constructively. However, the significance and the historical correlation of this awakening giant must be reexamined.

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Dow-Jones Industrials (12:00 p.m.)	864.78
S&P Composite (12:00 p.m.)	100.28
Cumulative Index (6/8/78)	758.02

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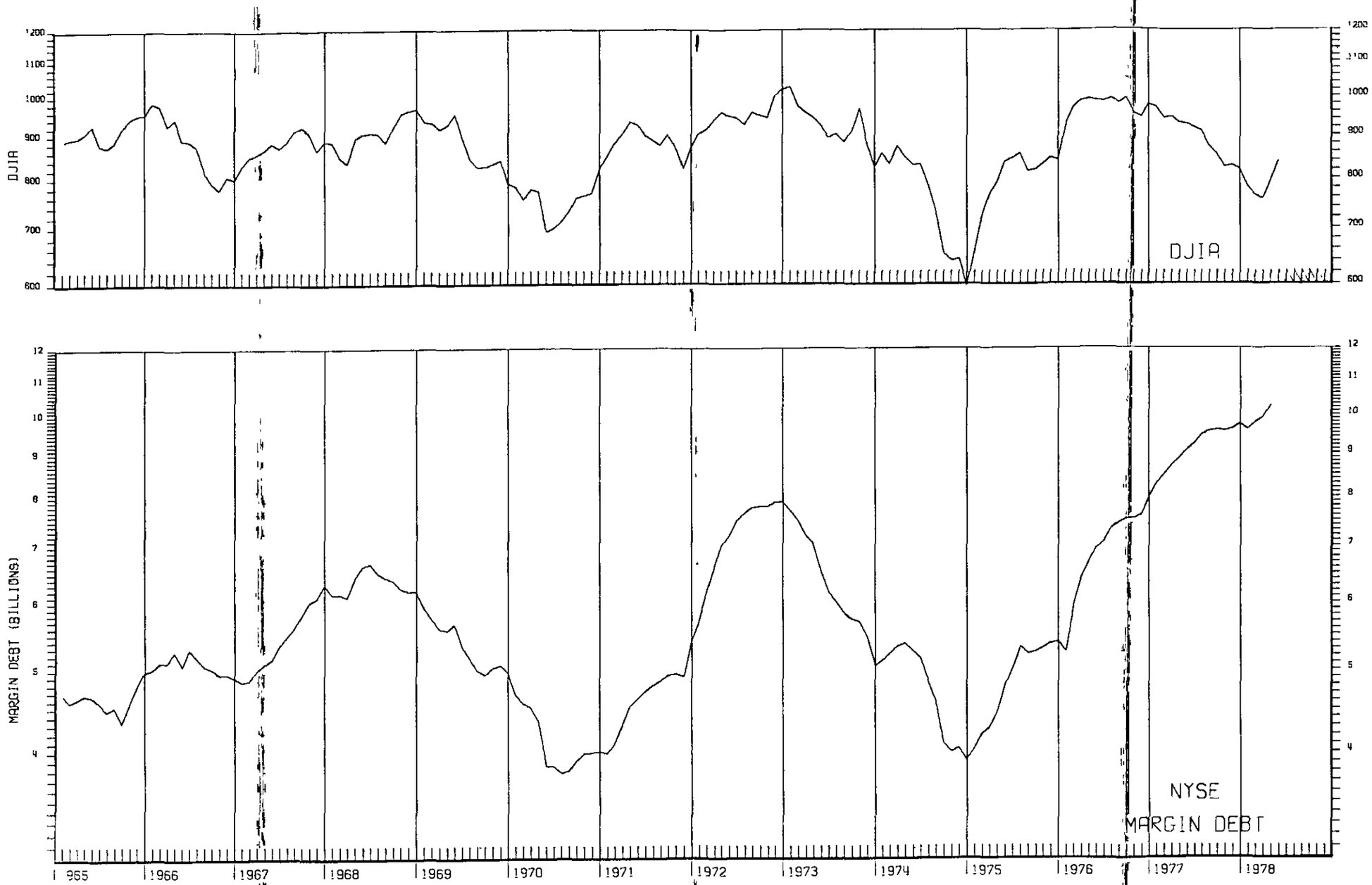
DJIA
1200
1100
1000
900
800
700
600
DJIA
MARGIN DEBT (BILLIONS)
12
11
10
9
8
7
6
5
4
NYSE
MARGIN DEBT
1965
1966
1967
1968
1969
1970
1971
1972
1973
1974
1975
1976
1977
1978