TABELL'S MARKET LETTER

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A reader of the business news of the past two weeks might well have gotten the impression that much of it should have appeared under the byline of Scheherazade. The financial news seemed to consist largely of 1001 tales of the Sheiks of Araby meeting in solemn assemblage in an attempt to fix the price of crude oil. Their eventual arrival at a $29 price earlier this week was greeted by the stock market with a predictable yawn, but later weakness, led by oil stocks, wound up being generally attributed to a feeling that the set price would not, in fact, hold.

Though our own oil-industry expertise is close to nil, we see no reason why it should. This conclusion need be based on nothing more sophisticated than what we are taught in elementary economics about price setting by cartels. The *sine qua non* of success in this effort is the ability to set effective production quotas, which is exactly the way it was done in the bad old days when the Texas Railroad Commission filled the OPEC role. It is becoming increasingly obvious that this is beyond OPEC's capabilities. Theoretical production ceilings have been set at a level significantly above current pumping levels. Those levels of production are, in turn, estimated to be ahead of current consumption at a time when inventory is widely agreed to be excessive. While world economic recovery will mitigate these factors somewhat, demand will still probably rise sluggishly. As one writer pointed out, the homeowner who has recently installed insulation is not going to rip it out because the price of heating oil has come down. Thus, our skepticism concerning the $29 figure, and our feeling that the reports of the demise of OPEC are not exaggerated.

To leave economics and turn to a field which we know something about, however, we doubt that any of the above constitutes part of the most crucial consideration at the present time for investors in oil stocks. True, the earnings prospects for most oil-related companies are cloudy at best, but, on the other hand, the stocks are not overly expensive, and much of the uncertainty regarding those earnings may already be built into price levels. What is more significant, in our view, is the overall technical position of these issues. The table below shows the percentage changes in the S & P 500 plus four oil-related S & P group indicies between five significant market points, the 1976-77 high, the 1978 low, the 1980 high, the 1982 low and a recent price. In the case of the group indicies, monthly average prices are used. The table covers the highs of the last three major market cycles, since the current price is high to date of the current cycle. Basically, a clear-cut pattern emerges.

PERCENTAGE CHANGES

	1976-7 High-1978 Low	1978 Low-1980 High	1980 High-1982 Low	1982 Low-Date
S & P 500	-19.41	+ 61.70	-27.11	+50.04
Oil Int'l	-13.06	+105.59	-41.47	+17.05
Oil Domestic	-19.20	+209.12	-49.80	+22.67
Oil Well Eqpt. & Svcs.	- 9.37	+245.27	-61.71	+21.89
Offshore Drilling	- 9.98	+302.97	-52.00	+12.21

On their decline to the 1978 low, most oil issues outperformed the market and dropped much less than the S & P 500. This was followed by distinctly superior performance on the subsequent rise to the 1980 high, oil stocks by and large showing up as the leaders of that bull market, the last completed major market cycle. On the subsequent decline to the 1982 low, the pattern reversed itself, and oil stocks again led, this time on the downside, dropping by a considerably greater percentage than did the 500. On the present cycle, the pattern continues, with the recovery to date being definitely sub-par compared to the 50% rise in the S & P.

The point is that it is normal technical action for relative strength to persist from one cycle to another. Oil stocks generally outperformed the market on the 1976-1978 decline and continued this out performance in the 1978-1980 advance. Likewise, their poor relative action in the 1980-1982 drop has been continued so far in the 1982-198? rising phase, and the normal expectation should be for this to continue for the remainder of that phase.

Another way of looking at the same phenomenon is to say that, having undergone a major decline in 1980-1982, it is necessary for oil issues to build a base before they can be considered ready for another major advance. The normal way in which such base-building is accomplished is for a group to "sit out" the upside phase of the subsequent cycle or, in some cases, more than one subsequent cycle. In other words, present price behavior, which consists of oil issues moving more or less laterally while the rest of the market advances sharply, is perfectly normal and indeed should be expected to continue.

The present technical outlook for oil stocks does not involve a great deal of long-term price vulnerability. Indeed, they probably scored their effective lows last August, although it is highly possible that these lows might be tested at a future date. The name of the game in a bull market, however, is capital enhancement, and, in this particular bull market at least, oil and oil-related issues may turn out to be inferior vehicles for that purpose.

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AWT:rs

Dow-Jones Industrials (12:00 p.m.)	1122.00
S & P Composite (12:00 p.m.)	150.18
Cumulative Index (3/17/83)	1718.02