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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Three weeks ago we noted in this space that the Dow seemed to be executing the mirror image of its trading pattern of early August. That pattern saw the Average post a new low at 1163.06 on August 8, decisively under the 1180-1250 trading range, which had held since June. It spent a week below the old range and promptly moved back into it. The mirror image has now been largely completed. Monday's new high of 1260.77 was followed by a 20-point three-day retracement. Meanwhile, further to compound the confusion, the staid Utilities continued to move ahead to new peaks through mid-week, while the Transportation Index underwent a minor blood bath, shedding some 24 points from its high of last week. On the surface, the general market picture appears to be, to say the least, confused.

Paradoxically, despite all the seemingly meaningless fluctuation, the market picture may have been shaping up more clearly, perhaps, than has been the case for some time. Before turning a microscope on the current status it is well to remember the broader perspective. We are in a bull market that is barely 13 months old which is, in turn, part of a cycle which should last approximately 48 months and spend some 50% to 80% of its total lifespan advancing. From a cycle point of view, therefore, it is hardly surprising to see the market post new peaks. Indeed, it should be expected to do so at various intervals throughout the remainder of 1983, probably through most of 1984, and possibly into 1985 as well.

We have spent the last two issues of this letter pointing out that there exists a potential breadth divergence, and we have indicated that we think it prudent to assume that this divergence will not be subsequently corrected. However, as we examined in detail last week, even under divergence conditions, it would be logical to expect the market to continue to post new highs from six months to two years. Thus, there is absolutely nothing in the existing breadth condition that conflicts with what cycle theory is telling us about the prospect for new stock-market peaks.

What, then, is the divergence telling us? It is telling us, a reading of history would seem to indicate, two things. First, the subsequent peaks, which we indeed expect, may not be significantly different than the highs recently attained. (In this regard, it must be noted that, with the Dow now around 1250, a move of 100 points is only 8%. We would therefore, not regard a figure of 1400 as being significantly different from 1250.) Secondly, breadth divergence conditions have tended to create periods of uncertainty during which the market was vulnerable to moderately severe and fairly protracted intermediate-term declines. The downswings of 1960 and 1965, for example, took place under divergence conditions. These were, however, intermediate-term corrections, not bear markets.

At the risk of boring our readers with overly elementary facts, we think it worthwhile to recall that there exist two basic elements to successful portfolio management --- market timing and stock selection. At various times, the importance of one or the other of these two factors overshadows the other. For the past year market timing was in one sense absolutely vital --- i.e., the decision had to be made to remain fully invested in common stocks. Once that decision had been made it was best to ignore timing altogether. One of the pitfalls into which many advisors stumbled last Fall and early this year was the attempt to be overly clever about calling short-term turns at a time when the market was essentially doing very little but going straight up.

During the last year, moreover, while some stocks obviously significantly outperformed others, the advance was essentially broad. The vast majority of common stocks participated in the rise from August, 1982 through June, 1983, and it was difficult over this period of time to choose stocks which did not offer at least satisfactory investment performance.

Present indications are, however, that we are entering a period in which stock selection will assume renewed importance. The confusing behavior of the averages, together with markedly poor breadth and a number of other indicators, are suggesting that the bull market has entered a more mature stage. Characteristically in such a stage, a large number of issues do not participate in the continued upswing and indeed move counter to the major trend. We have already seen this sort of performance in a host of secondary Over-the-Counter issues, some of which have moved down as much as 50% at a time when general market indicators have been posting new peaks.

We expect, moreover, the continuance of the sort of environment in which stock selection remains the major factor in investment success, and we would therefore concentrate on it rather than trying to be overly clever about timing the market. Were the averages to move higher, say to the 1400 level on the Dow mentioned above, it is possible, depending upon market conditions at the time, that we might wish to revise this view and advocate a fundamental timing decision, i.e., the reduction of exposure to common stocks. For the time being, however, we feel that a basic investment stance should be one involving a full commitment to equities. Those equities, however, should be carefully selected with a view to fundamental cheapness and a technical position which combines upside potential with a minimum of downside risk.

AWT:rs

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

Dow-Jones Industrials (12:00 p.m.)	1233.03
S & P Composite (12:00 p.m.)	166.38
Cumulative Index (9/29/83)	2025.44