# TABELL'S MARKET LETTER

*Delafield, Harvey, Tabell Inc.*

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 924-9660

October 28, 1983

Wall Street spends an incredible amount of time and money exploring so-called fundamental factors in an effort to predict stock-price action. Learned treatises are written on the outlook for the economy, and hoards of analysts spend countless hours visiting and researching individual companies in an attempt to determine the earnings prospects for those companies. We have no quarrel with the basic premise behind all this activity. It is axiomatic that, in the long run, the general level of stock prices is a function of the health of the economy and that, in that same long run, earnings growth will tend to determine the course of a stock's price. Lord Keynes, however, reminded us that in the long run we are all dead, and the extent to which these factors impact the course of prices in the short-to-intermediate term is at least open to question, as is the efficiency of the predictive process. We are all familiar with the recent instances of earnings reports which totally surprised the analytical community which was supposed to be intimately familiar with the companies involved and with the consequent drastic effects on the prices of the stocks in question. Paradoxically, there is some evidence that stock prices may, themselves, be fairly efficient predictors of the factors which are supposed to predict them. The National Bureau of Economic Research, for example, is sufficiently impressed with the ability of the market to predict the economy to include the change in the S & P 500-Stock Index as a component of its index of leading economic indicators.

As technicians, of course, it is our task to look at stock prices themselves, and, at most times, when one observes the technical action of a wide range of stocks, there will exist a mix of those stocks which are technically attractive and those which are relatively unattractive. It is impossible, during the course of this process, not to observe groups of issues having some sort of common factor either acting well or acting poorly. It is also difficult not to infer from such an observation that the market, or, if you will, the collectivity of stock buyers, is in effect making a prediction about certain aspects of the economy. The market, in other words, is often making its own statement about what it believes the fundamentals to be.

It is not always correct in such beliefs. Paul Samuelson made the immortal remark at one point that the market had predicted nine out of the last six recessions. Nonetheless, in many years of looking at stock prices, we have come to the conclusion that the market's record as a predictor, is often rather good. A few subjective thoughts, therefore, are herewith offered on what the stock market is "saying" at the moment.

We have noted in this space the recent relatively good behavior of utilites and other capital-intensive, interest-sensitive stocks. We suspect that a statement may be being made here that the market expects lower interest rates over the long term and, at least, not too much higher rates over the shorter term. It is also possible to contrast the utilities' excellent technical behavior with the potentially disastrous technical patterns existing in many natural-resource issues, particularly metals and most particularly precious metals. It is also possible to factor into this equation the excellent technical behavior of the food group, purchasors of commodities and sellers to the general public. Out of all of this there emerges, it seems to us, the fact that the stock market expects a continued low rate of inflation and that the actual change in the Consumer Price Index over the next year or so should, at the worst, approximate the consensus forecast, which looks for inflation to rise to the 5-6% level as recovery progresses. At best, inflation might wind up lower than that.

Another factor in current technical behavior which cannot escape notice is the general attractiveness of large numbers of companies who earn goodly percentages of their income abroad. The strength of the U.S. dollar relative to foreign currencies (it has flattened out lately) has been a staple of financial news over the past year. Lower relative interest rates may erode at least some of that strength and cause companies with large components of foreign earnings to possess investment attraction.

The tendency toward favorable patterns for interest-sensitive stocks does not extend to the money-center banks, most of which seem to indicate, over the intermediate term, lower, although not disastrously lower, prices. This would suggest that the ongoing problem of loans to Third-World countries is likely to continue visible, in the months ahead. The fact that the distributional tops are not major, though, might further suggest that, despite its visibility, the problem is susceptible to solution in one form or another.

The market, it seems to us, is "saying" a number of other things. It seems, for example, to have a great deal of faith in continued economic recovery since, as a whole, "smokestack" issues seem to find themselves, at worst, in the advanced stages of base formations and, at best, in the course of ongoing uptrends. It seems to be indicating, moreover, that the current well-advertised problems in certain areas of the computer/electronics industry are not transitory, and that the shakeout in this industry is likely to continue. Shakeouts inevitably produce survivors, however, and the healthy minority of strong technical patterns in the industry may be pointing at the identities of those survivors.

It is, of course, a matter of individual preference as to how much weight one wishes to place on these implicit predictions being made by stock-price action. None of them seems to us to be fundamentally implausible. It will be interesting to see how many are borne out.

AWT:rs

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

| | |
|---|---|
| Dow-Jones Industrials (12:00 p.m.) | 1242.48 |
| S & P Composite (12:00 p.m.) | 164.81 |
| Cumulative Index (10/27/83) | 1977.17 |