

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

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As almost every one is aware, we celebrated, this week, the 208th anniversary of our nation's independence. More parochially, we also celebrated the anniversary of the July 3, 1884 publication of the Customer's Afternoon Letter. For those who missed the Wall Street Journal article on the subject, that publication was the enterprise of two gentlemen named Dow and Jones, and the issue in question was the first to publish an average of various stocks. That average has been maintained, more or less continuously, ever since, so this week, in effect, saw the 100th birthday of the Dow-Jones Industrial Average.

That first ur-Dow-Jones, instructively, contained 11 stocks, nine of which were railroads and most of which subsequently went bankrupt. The average has been able to maintain continuity and relevance over the years through periodic substitutions, although, as is proper for a venerable institution, the authorities at Dow-Jones are reluctant to make wholesale change. We thought, however, we would celebrate the birthday by offering those authorities some --- admittedly gratuitous --- advice on bringing the average up-to-date. To this end, we suggest six stocks currently in the average be replaced by others as outlined below.

The way to view an average of only 30 stocks, it seems to us, is to view each stock as a proxy for the broad industrial category to which it belongs. To do this, we classified the 30 Dow stocks into 16 such broad categories based on Standard & Poor's Industrial groups and compared the weight for each of the 16 categories to its weight in the S & P 400. We did not mean to imply, in this exercise, any "superiority" of the S & P average. However, since it is capital weighted, it is a fair proxy for the importance of each category to the American economy. The final column of the table below shows the ratio of the Dow-Jones Industrial weight to the S & P weight, and the table is ranked in order of these ratios.

Industrial Category	Stocks in DJIA	% Wght - DJIA	% Wght - S&P 400	Ratio
Containers - Metal and Glass	AC,DI	6.46	0.55	11.75
Steel	BS,X	3.25	0.65	5.00
Aluminum & Metals - Miscellaneous	AA,W	3.42	1.02	3.35
Agricultural Machinery	HR	0.54	0.27	2.00
Miscellaneous (Industrial & High Tech.)	ALB,T,Ek,MM	15.15	7.78	1.95
Chemicals & Chemicals - Miscellaneous	DD,UK	7.66	4.02	1.90
Paper & Forest Products	IP	3.75	2.11	1.77
Auto & Auto Related (1)	GM,GT	7.17	4.93	1.45
Electronic - Major & Elec. Equipment	GE,WX	5.82	4.01	1.45
Food & Other Consumer (2)	AMB,GF,PG	12.76	10.13	1.26
Aerospace	UTX	2.59	2.44	1.06
Drugs & Hospital Supplies	MRA	7.12	6.93	1.03
Retail	S,Z	5.12	5.24	0.98
Computers & Business Equipment	IBM	8.34	9.73	0.75
Oil	CHV,XON,TX	8.61	19.37	0.44
Financial	AEX	2.24	---	---

(1) Autos, Auto Parts, Trucks, Tires

(2) Foods, Brewers, Soft Drinks, Cosmetics, Soaps, Tobacco

It is worth noting that 24 of the 30 stocks in the Dow are in the top 133 S & P 500 issues. There then intrudes a gap, and six Dow stocks find themselves in the lower half of the 500. (All subsequent numbers in parentheses refer to the ranking in the 500.) The six are International Harvester (448), Bethlehem Steel (311), Inco (290), American Can (284), Owens-Illinois (273), and Woolworth (267).

The most overweighted group, as the table shows is obviously, Containers, and it would appear appropriate that American Can and Owens-Illinois be removed from the Dow. The next is Steel, and the smaller of the two companies, Bethlehem Steel, could, it seems to us, be appropriately deleted. Third is the Aluminum-Metal category and it would seem to us sensible that Inco one of the six smaller companies go. The same reasoning would apply to International Harvester. The next most overweighted groups are the Chemical and Miscellaneous Industrial categories. Furthermore, Allied Corp., still partially a chemical company, is in the latter category. It would thus seem that either it or Union Carbide, the smaller of the two chemicals, would be a potential deletion candidate.

It is suggested above that a total of six stocks be dropped. What might be six appropriate replacements? Paradoxically, the only drastically underweighted group in the Dow is Oils and the average, which has three oil stocks already, appears to need another one. Our suggestion would be Schlumberger (9) in the related oil-well equipment field, but Standard Oil of Indiana (6) or Atlantic Richfield (13) (for domestic flavor) would also be appropriate.

For our other suggestions, we examined industrial categories not now contained in the DJIA. Two Electronics categories constitute 2.92% of the 500, with none of the nine issues currently in the Dow. Hewlett-Packard (18) the largest, could appropriately be added. Many of today's industrial companies have been grouped together in Conglomerates, 2.39% of the S & P. Tenneco (47) is the largest of these.

Publishing constitutes 2.11% of the S & P. It would be chauvinistic for Dow-Jones (104) to include itself in its own average, but it could go with Dun & Bradstreet (82) or Gannett (86). Two percent of the S & P is taken up by four groups generally involved with consumer activity outside the home. McDonalds (61) is the largest company in this category. Finally, 1.38% of the 500 is accounted for by a broad group of 21 companies generally associated with machinery. Caterpillar Tractor (80) would be a sensible new member of the thirty.

Dow-Jones Industrials (12:00 p.m.) 1115.95
S & P Composite (12:00 p.m.) 152.13
Cumulative Index (7/5/84) 1873.05

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.