TABELL'S MARKET LETTER

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Two weeks ago, on April 25, Standard & Poor's 500-Stock Index closed at 183.43, a marginal .08 above the peak it had posted more than two months before in February. At that level, the 500 was at a new all-time high, 79% above its 102.42 close of August 12, 1982. As of a fortnight ago, therefore, a 32-month-old bull market was still in force. Our present investment perspective can be summed up in the sentence that 32 months is a long time for a bull market.

Now that statement is intended to do nothing more than supply perspective, and it is certainly not intended to imply any particular near-term pessimism on our part. The continued existence of a bull market as of two weeks ago is a fact. Given that fact, there exist at the present time three possible market scenarios. The first is that April 25 was the high (unlikely). The second is that the bull market will continue to score modest new highs throughout the remainder of the year (more likely), and the third is that those highs will be significantly above and removed in time from present levels (less likely). This combination of possibilities enables us to view the market in an essentially constructive mode, precisely as we have been doing for the past 32 months. However, cycles must invariably come to an end and, quite probably, this one will do so within the next year. Therefore, caution is appropriate.

Strangely enough, it is not too early, even with the bull market's end sitting out there at some nebulous point in the future, to try to look beyond that point and formulate some guidelines as to what might ensue. What will next take place, of course, is a bear market of as-yet-unknown severity. Like all bear markets, it will not be pleasant but will, eventually, run its course. What will follow, as the night the day, is the next bull market and it is not premature, even at this stage, to engage in preliminary speculation as to whence the leadership for that bull market might come.

One of the first places to begin looking for cycle bull-market leadership is among non-participants in the previous bull market. Two major areas which seem to fall in this category as far as the present market is concerned are the Oil and the Over-the-Counter sectors.

Both of these, in different ways, are major-market segments. The OTC market, by definition, consists of smaller, and, therefore, higher-growth-potential companies and can be taken largely, although not totally, synonomous with the high-technology area. Oils, although at the exact opposite end of the scale in company size, tend to constitute some 20% of the broad-based indices. They also tend, empirical studies have shown, to move in their own cyclical rhythm, independent of other major market segments.

That both have been underperformers is demonstrable. The NASDAQ OTC Industrials rose almost 130% between August, 1982 and June, 1983, twice as much as the S & P 500. They then dropped almost 40% over the next year, to July, 1984, and equalled their July low in December during a period when the market in general was moving ahead. In order to trace the Oils' underperformance, it is necessary to go all the way back to November, 1980, five months before the end of the bull market previous to the current one. At that point the S & P Oil Composite reached 392.2. To the August, 1982 low it dropped 52%, twice as much as the market as a whole. The subsequent recovery, which extended to April, 1984, was more or less in line with the market as a whole but following this another period of underperformance set in, and, as recently as January of this year, the Oil index was still below its 1984 high. The underperformance of the two groups can be summarized by noting that, at current prices, the OTC Industrials are just moderately above their 1980-81 high and the Oils still remain below that high. The 500, by contrast, is today some 30% above its previous bull-market peak.

It is not unusual for a group which is to lead a bull market to begin to show above-average relative action in the final stages of the preceding one. A notable example is basic-industry stocks in the early 1970's. These issues began to show improved relative action at the end of the 1970-73 upswing and in turn led the 1974-76 bull move. Therefore, recent action in the Oil and Over-the-Counter sectors assumes some importance.

From its January low, in response to takeovers and restructuring, the Oil Composite has moved from 310.6 to a level of 372.0 on May 1, a 19.8% gain. OTC improvement, by contrast, was impressive during December-February, when the NASDAQ Industrials posted an almost 25%-rise, twice as great as the market. However, the subsequent follow-through has been disappointing.

It is, of course, not known at this stage whether these two areas will continue to show improved technical action, suggesting their possible leadership role in a future upswing or whether they will again begin to underperform and entirely new potential leadership will emerge. Their technical behavior, in any case, will be worth watching.

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Dow-Jones Industrials (12:00 p.m.)	1272.08
S & P Composite (12:00 p.m.)	183.30
Cumulative Index (5/9/85)	2405.82