

# TABELL'S MARKET LETTER

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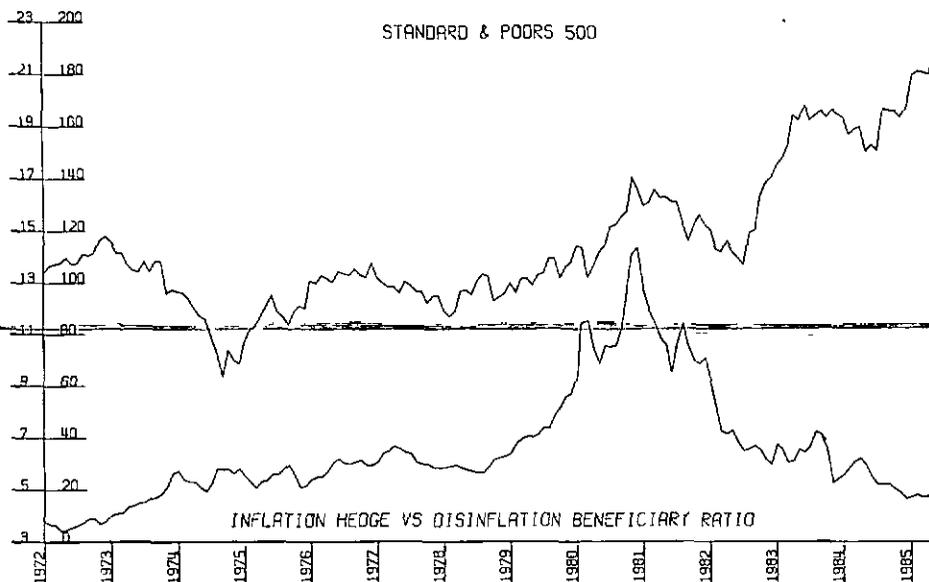
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July 12, 1985

Bond prices are up and interest rates have come down. Inflation hedge stocks are under pressure while financial assets -- bonds and the disinflation beneficiary stock sector -- seem to be the only game in town. When and how did these changes in the characteristics of the market, now apparent to all of us, become identifiable?

Last week, this letter examined the recent relative performance or lack of performance of the mutual fund industry within the past two years. Part of the reason for this below average performance was the inability of the money manager to identify changes within the market. We concluded by suggesting that markets do possess identifiable characteristics and that a study of these characteristics is, indeed, important. Technical analysis can identify the sort of broad shifts in market sentiment and can, therefore, constitute an indispensable tool in the overall portfolio-management process.

In order to answer the above question, the logical place to start to examine this change or shift in the nature of the stock market should be August, 1982, the start of the current bull market which is now almost 750 days old. Instead of looking at some of the broad-based indices such as the Standard & Poors 500, we have instead taken a monthly average of S & P groups that either constitute an inflation hedge or would be a disinflation beneficiary and have created two separate indexes. Inflation hedge groups would include, among others, metals, gold, copper and the entire energy sector. Disinflation beneficiary groups would include groups such as airlines, utilities, foods, drugs, banks, and insurance.



The chart above shows the monthly close of the S & P 500 and the ratio of the inflation group to the disinflation group from January, 1972 through June, 1985. In other words, as the inflation hedge index is advancing more than the disinflation beneficiary index, the ratio line is going up (1972-1980). Clearly, it can be shown from the chart that the inflation hedge sector has underperformed those groups which are disinflation beneficiaries since the August, 1982 low. It is possible to go back even further than this date to identify the beginning of this significant change in the market environment, a change that has sustained itself to the present. The ratio reached its high at the end of 1980 coincident with the high in the S & P 500. This date, by hindsight, signaled the peak of the ratio of inflationary hedge stocks relative to those stocks that are beneficiaries of disinflation. It was during the subsequent correction in the market to the August, 1982 low that the inflationary-hedge index turned down. This occurred while the disinflation beneficiary index continued to move ahead in the face of a 15% decline in the S & P 500. The final confirmation of this significant internal change came when the market rallied dramatically in August, 1982, but failed to include the inflation-hedge sector. As can be seen from the table on the opposite page, from the ratio peak of December 1980, the inflation-hedge sector has declined with minor interruptions approximately 33% to June, 1985. The disinflation beneficiary index, on the other hand, has increased 125% to date. This is not to suggest an immediate switch into the disinflation beneficiary sector was warranted shortly after the peak in the ratio in December, 1980. However, we would suggest an examination of the data over time would reflect this gradual internal change within the market. By the August, 1982 low this change should have been clearly identified with appropriate shifts in weighting made to participate in the advance which was to come.

Where are we now in terms of this ratio? The ratio, based on data available from 1960 to date currently is at the lowest level since 1972, the historical low for the series. We know the stock market to be a leading indicator historically reaching peaks and troughs earlier than the corresponding business cycle turns. Although it seems likely to expect further strength in the disinflation beneficiary sector in the immediate future, it would seem wise to continue to monitor series of this type that attempt to measure shifts in market sentiment so we do not find ourselves asking in the future the reasons why bond prices have gone down and why are interest rates up.

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Dow-Jones Industrials (12:00 p.m.) 1336.58  
S & P Composite (12:00 p.m.) 192.80  
Cumulative Index (7/11/85) 2598.83

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DATE	INFLATION HEDGE	DISINFLATION BENEFICIARY	RATIO
DEC 1980	114.58	79.85	1.435
JAN 1981	107.47	84.47	1.272
FEB 1981	100.83	84.60	1.192
MAR 1981	104.55	91.18	1.147
APR 1981	103.41	95.27	1.085
MAY 1981	100.95	95.50	1.057
JUN 1981	96.05	100.94	0.952
JUL 1981	100.54	94.49	1.064
AUG 1981	105.54	92.27	1.144
SEP 1981	91.81	87.29	1.052
OCT 1981	91.08	91.44	0.996
NOV 1981	91.54	92.71	0.987
DEC 1981	92.71	91.96	1.008
JAN 1982	82.52	89.14	0.926
FEB 1982	77.05	93.65	0.823
MAR 1982	70.42	97.05	0.726
APR 1982	72.38	101.24	0.715
MAY 1982	72.86	99.94	0.729
JUN 1982	66.08	96.97	0.681
JUL 1982	63.00	96.95	0.650
AUG 1982	62.37	94.95	0.657
SEP 1982	70.73	105.80	0.669
OCT 1982	78.10	119.47	0.654
NOV 1982	78.57	127.54	0.616
DEC 1982	78.39	131.50	0.596
JAN 1983	86.12	127.68	0.674
FEB 1983	84.94	130.37	0.652
MAR 1983	85.91	142.32	0.604
APR 1983	90.77	148.94	0.609
MAY 1983	97.29	148.90	0.653
JUN 1983	96.95	150.81	0.643
JUL 1983	100.44	150.45	0.668
AUG 1983	101.76	140.75	0.723
SEP 1983	102.86	144.18	0.713
OCT 1983	97.29	147.89	0.658
NOV 1983	78.92	149.88	0.527
DEC 1983	79.99	147.58	0.542
JAN 1984	79.56	142.57	0.558
FEB 1984	78.12	134.11	0.583
MAR 1984	81.41	133.79	0.609
APR 1984	82.29	132.54	0.621
MAY 1984	78.33	131.52	0.596
JUN 1984	72.72	131.85	0.552
JUL 1984	67.97	130.18	0.522
AUG 1984	71.87	138.30	0.520
SEP 1984	73.94	141.65	0.522
OCT 1984	71.45	141.97	0.503
NOV 1984	71.25	145.80	0.489
DEC 1984	68.82	147.61	0.466
JAN 1985	71.99	152.36	0.473
FEB 1985	77.14	160.86	0.480
MAR 1985	75.67	160.77	0.471
APR 1985	77.01	162.19	0.475
MAY 1985	77.06	169.77	0.454
JUN 1985	76.13	180.17	0.423